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Administration
financial-
compliance audit

State of Montana
Office of the Legislative Auditor

REPORT TO THE LEGISLATURE

DEPARTMENT OF ADMINISTRATION

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1987

This report contains twelve recommendations for improvement of the Department of Administration's internal controls, compliance with state laws and policies, and financial reporting. The major items addressed in this report include:

- Cash collection and deposit controls
- Long Range Building Program appropriations
- State accounting policy and accounting errors
- Deferred Compensation Program reconciliations
- Use of self-insurance proceeds
- Unused bond proceeds

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. The Office of the Legislative Auditor issues a biennial Single Audit Report for the state of Montana which fulfills those requirements on a statewide basis. The audit report presented here is therefore not intended to meet all reporting requirements of the Single Audit Act of 1984 and OMB Circular A-128.

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June 1988

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Administration for fiscal years 1985-86 and 1986-87. Included in this report are recommendations concerning the department's cash collection and deposit controls; Long Range Building Program appropriations; accounting policy and errors; Deferred Compensation Program reconciliations; use of insurance proceeds; unused bond proceeds; and telecommunication recovery and security controls. The department's written response to audit recommendations is included in the back of the report.

We thank the director and the department's staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

DEPARTMENT OF ADMINISTRATION

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1987

Members of the audit staff involved in this audit were: Jody Bisom, Mary Bryson, Paul Christofferson, Don Davies, John Fine, Susan Fleming, Pearl Highland, and Amy Vanica.

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DEPARTMENT OF ADMINISTRATION

APPOINTIVE AND ADMINISTRATIVE OFFICIALS

Ellen Feaver	Director
Dave Ashley	Deputy Director
Kathy Fabiano	Administrator Accounting Division
Thomas B. O'Connell	Administrator Architecture & Engineering Division
Karen Munro	Administrator Centralized Services Division
H. Deane Blanton	Administrator General Services Division
Mike Trevor	Administrator Information Services Division
James R. Howeth	Investment Officer Investment Division*
Lawrence P. Nachtsheim	Administrator Public Employees' Retirement Division
Michael S. Muszkiewicz	Administrator Procurement and Printing Division
Marvin Eicholtz	Acting Administrator Procurement and Printing Division
Laurie Ekanger	Administrator State Personnel Division
Dale D. Dean	Chairman State Tax Appeal Board
Dave L. Senn	Administrator Teachers' Retirement Division
John H. Maynard	Administrator Tort Claims Division
Timothy W. Reardon	Judge Workers' Compensation Court

* Transferred to the Department of Commerce effective July 1, 1987.

SUMMARY OF AUDIT RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

	Page
Recommendation #1 The department:	
A. Comply with state cash collection and deposit laws and policies.	6
Agency Response: Concur. See page 43.	
B. Implement adequate cash collection and deposit control procedures at the Property and Supply Bureau and the State Personnel Division.	6
Agency Response: Concur. See page 43.	
Recommendation #2 The department develop procedures to facilitate timely closeout of unexpended appropriation balances for capital projects.	10
Agency Response: Concur. See page 43.	
Recommendation #3 The department:	
A. Establish state accounting policies which are consistent with state laws.	12
Agency Response: Concur. See page 46.	
B. Provide state agencies with the information necessary to record financial activity in accordance with state law.	12
Agency Response: Concur. See page 46.	
Recommendation #4 The department implement procedures to ensure its financial activity is recorded on the state's accounting records in accordance with state law and state accounting policies.	15
Agency Response: Concur. See page 47.	

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Recommendation #1 The department:	
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Agency Response: Concur. See page 46.	
Recommendation #4 The department implement procedures to ensure its financial activity is recorded on the state's accounting records in accordance with state law and state accounting policies.	15
Agency Response: Concur. See page 47.	

SUMMARY OF AUDIT RECOMMENDATIONS
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Recommendation #5
The department:

A. Fully reconcile deferred compensation program participant contributions to investment reports. 17

Agency Response: Concur. See page 47.

B. Write rules for the administration of the state's deferred compensation plan through the state's established rule-making process, as required by state law. 17

Agency Response: Concur. See page 47.

Recommendation #6
The department comply with 2-17-105, MCA, and use insurance proceeds in accordance with state law. 18

Agency Response: Concur. See page 48.

Recommendation #7
The department provide appropriate supervision to personnel responsible for issuing purchase orders to ensure the purchase orders comply with applicable state laws and policies. 19

Agency Response: Concur. See page 48.

Recommendation #8
The department seek legislation clarifying the disposition of unused bond proceeds. 21

Agency Response: Concur. See page 48.

Recommendation #9
The department write a telecommunications disaster recovery plan and provide adequate physical security over telecommunications equipment. 22

Agency Response: Concur. See page 49.

Recommendation #10
The department comply with state law and policy by:

A. Ensuring adequate and consistent handling of its contracts. 23

Agency Response: Concur. See page 49.

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B. Maintaining documentation certifying workers' compensation insurance coverage or an approved exemption for contractors.	23
Agency Response: Concur. See page 49.	
C. Documenting each sole source private professional service contract justification or competitively bidding the contract.	23
Agency Response: Concur. See page 49.	
Recommendation #11 The department comply with state law by:	
A. Establishing records retention schedules for all its unique documents.	25
Agency Response: Concur. See page 50.	
B. Updating records retention schedules on a regular and timely basis.	25
Agency Response: Concur. See page 50.	
C. Retaining records in accordance with established records retention schedules.	25
Agency Response: Concur. See page 50.	
Recommendation #12 The department:	
A. Work with the Departments of Revenue and State Lands and, if necessary, seek changes in state law to ensure timely state land equalization payments are made to counties.	26
Agency Response: Do not concur. See page 50.	
B. Seek repeal of laws relating to the merit system which were determined unconstitutional by the district court.	27
Agency Response: Partially concur. See page 50.	

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C. Seek modification of printing laws to allow the department to retain samples of printed materials in accordance with state records retention policies. 27

Agency Response: Partially concur. See page 51.

INTRODUCTION

We performed a financial-compliance audit of the Department of Administration for the two fiscal years ended June 30, 1986 and 1987. The objectives of the audit were to:

1) make recommendations for improvement in the department's management and internal controls;

2) determine the department's compliance with applicable laws and regulations;

3) determine if the department's financial schedules present fairly the results of its operations for the two fiscal years ended June 30, 1987; and

4) determine the implementation status of prior audit recommendations.

This audit included financial and compliance reviews of the agencies administratively attached to the Department of Administration, except as noted below. The audit did not include the Teachers' Retirement Division, the Public Employees' Retirement Division, or related retirement systems' funds, and the Board of Investments' investment activities, which are covered in separately issued audit reports. We also perform a separate annual review of the state's data processing center and accounting system, which are operated by the department. In addition to these regular audits and reviews, the Office of the Legislative Auditor recently completed the following performance audits at the department: Property and Supply Bureau (87P-37); General Services Division (87P-41); Photocopy Pool (87P-33); Rejected Bids (87P-34); and In-state Bidders Preference (87P-40). The Office of the Legislative Auditor also issued a performance audit survey of the State Personnel Division (87S-2) in 1987.

This report contains 12 recommendations to the department. These recommendations address areas where the department can improve internal controls, compliance with laws and regulations, and financial reporting. In accordance with section 5-13-307(2), MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations made in this report. Other areas of concern deemed not to have a significant effect on the successful operations of the department are not included in this report, but have been discussed with department management. The issues disclosed in the other audit reports are not repeated in this report.

This office performed the previous Department of Administration audit, which covered the two fiscal years ended June 30, 1985. That report directed eight recommendations to the department that are still applicable to its operations. The department concurred with all eight recommendations. The department implemented four and partially implemented four of the prior recommendations. Two of the partially implemented recommendations concern implementation of state accounting statutes and compliance with state records retention statutes, as discussed in the State Accounting Policies and Records Retention sections on pages 11 and 23 of this report, respectively.

DEPARTMENT ORGANIZATION AND FUNCTIONS

During the audit period, the Department of Administration consisted of the Director's Office, ten divisions, and five administratively attached agencies. The five attached agencies were the Board of Examiners, the State Tax Appeal Board, the Workers' Compensation Court, the Teachers' Retirement Division, and the Board of Investments. Effective July 1, 1987, the Board of Investments became administratively attached to the Department of Commerce. A description of the department's primary functions during the audit period follows:

Director's Office - supervises and coordinates the activities of the various divisions within the department and the administratively attached boards and agencies and provides the department legal counsel.

Accounting - provides a centralized accounting system, financial reporting policies, and related training for all state agencies.

Architecture & Engineering - oversees the planning, design, and construction of state buildings, structures, and major maintenance projects under the Long Range Building Program.

Centralized Services - provides accounting and budgeting services for all divisions of the department and acts as treasurer (e.g., records all moneys received, reconciles bank statements, records contractors' pledges, and accounts for outstanding bond issues and their redemption) for all state agencies and boards.

General Services - maintains state buildings, provides mail services, and provides capitol complex security.

Information Services - provides central mainframe computer processing services; shared statewide data communications network services; local and

long distance telephone services; data processing training; computer application development and support including data management (database) services; microcomputer and office automation support services; records management services; radio frequency coordination liaison with local government; data processing planning, coordination and control of equipment acquisitions; control and coordination of 911 program.

Public Employees' Retirement - manages public employees' and other state-established retirement systems.

Publications & Graphics* - provides centralized duplicating and printing for state agencies.

Purchasing* - provides centralized purchasing services for state agencies and manages the state's surplus property.

State Personnel - administers the state classification and pay plan; adopts state personnel policies; provides state employee training; administers the state's equal employment opportunity, affirmative action, deferred compensation, group benefits, and incentive awards programs; and acts on behalf of the state in labor relations and negotiations.

Tort Claims - manages the state insurance programs.

* The department created the Procurement & Printing Division in fiscal year 1987-88 by combining the functions of the Publications & Graphics and Purchasing Divisions.

CASH COLLECTION AND DEPOSIT CONTROLS

During our interim audit work, we identified internal control weaknesses over cash collections at the department's State Personnel Division and Property and Supply Bureau. During this period, the department reported a loss of cash at the State Personnel Division. We communicated our concerns regarding the control weaknesses to the department. We recommended the department improve its cash collection and deposit procedures at the State Personnel Division and Property and Supply Bureau by complying with state laws and policies. During year-end audit work, we determined the department's procedures at the Property and Supply Bureau had not changed significantly. In October 1987, we performed additional audit work in the area of cash controls at the Property and Supply Bureau.

The control concerns we identified at the Property and Supply Bureau and State Personnel Division include the following:

1) Several employees handled cash and their duties were not adequately segregated.

2) Amounts collected were not adequately reconciled to revenues reported on the state's accounting records and to subsidiary department records.

3) Personnel did not consistently follow the cash collection and deposit procedures established for their bureau or division.

4) Collections from the Property and Supply Bureau's public "garage" sales were not deposited intact at the Treasury Bureau.

5) Property and Supply Bureau personnel did not maintain a daily record or log of amounts collected through the mail.

Due to the lack of internal controls described above and inadequate management supervision, the following situations occurred at the Property and Supply Bureau.

1) Currency received during public sales of surplus property was misappropriated.

2) From four surplus property sales held between April and August 1986, 93 of the prenumbered invoices/receipts were missing.

3) Property and Supply Bureau personnel issued invoices/receipts that were not prenumbered for public sales held from August 1986 to March 1987, so it was not possible to determine if all the invoices/receipts issued during this period were accounted for.

4) During the period from March through December 1987, 25 of the bureau's prenumbered receipts were missing.

5) The sale invoices (receipts), although recorded in a log book, were not recorded or used in a logical, systematic manner (e.g., in sequential order).

6) The sale invoices were not always complete. Missing information included the payment method (cash, check, or on account), the buyer's name, check number (when applicable), and date of sale.

7) Surplus items sold by bid were not always invoiced.

8) There were errors in the subsidiary accounting records including recording errors, undocumented adjustments and incorrect billing of customers.

9) Documents supporting the state's accounting records were altered.

Due to the nature of these findings, including apparent penal violations at the Property and Supply Bureau, we referred information we gathered at the bureau to the Attorney General's Office in accordance with 5-13-304(4), MCA.

An effective system of internal control over collections provides assurance that collections received have been promptly processed, appropriately applied, and accurately recorded. By establishing an adequate control system and ensuring the system is implemented (through review of employees' work and other management techniques), management personnel would be better able to prevent and detect revenue losses and to ensure the completeness and accuracy of the management information needed to make decisions concerning bureau operations. The department would improve its cash collection and deposit procedures by complying with state law [section 17-6-105(6), MCA] and state policies (MOM Chapter 2-1200), which require state agencies to:

1) restrictively endorse all checks upon initial receipt;

2) deposit collections daily when coin and currency exceed $100, or total collections exceed $500;

3) deposit collections intact; and

4) hold collections in safekeeping pending deposit.

In addition, the department should consider doing the following as recommended in state policy (MOM Chapter 2-1200):

1) maintain a daily record of all amounts collected and the disposition of those collections;

2) issue prenumbered receipts for all coin and currency collected;

3) establish a transfer receipt system to track the chain of responsibility as cash goes from one employee to another; and

4) when sufficient personnel are available, segregate the collection function from the record keeping function.

Department personnel have recently revised the Property & Supply Bureau's written cash collection and deposit procedures. We reviewed two drafts of the bureau's revised procedures. It appears the most recent draft of procedures would adequately segregate duties if followed as written. The revised procedures for State Personnel Division, if implemented as described in

the department's response to our letter, would be adequate if (1) receipts were prenumbered by a person other than the employee issuing receipts and (2) a person not otherwise involved in the control system reconciled the receiving log to the accounting records.

RECOMMENDATION #1

WE RECOMMEND THE DEPARTMENT:

A. COMPLY WITH STATE CASH COLLECTION AND DEPOSIT LAWS AND POLICIES.

B. IMPLEMENT ADEQUATE CASH COLLECTION AND DEPOSIT CONTROL PROCEDURES AT THE PROPERTY AND SUPPLY BUREAU AND THE STATE PERSONNEL DIVISION.

LONG RANGE BUILDING PROGRAM

Background

The department's Architecture & Engineering Division (A&E) oversees the Long Range Building Program (LRBP). The LRBP is funded by state revenue sources (cash accounts) and bonding.

The cash portion of the program can be divided into two parts--the Capital Projects Fund and other cash funds. The Capital Projects Fund revenues are derived from three sources: 20.25 percent of cigarette taxes, a supervisory fee of 1 percent on all projects not funded from the Capital Projects Fund, and interest earnings on the money from the previous two sources. Other cash funding sources include hunting and fishing license fees, gasoline taxes, federal construction funds, and university auxiliary funds.

The bonding portion of the program is backed by the full faith and credit and taxing powers of the state. Currently, the sources of revenue used to make debt service payments include the remaining 79.75 percent of cigarette taxes, 100 percent of other tobacco taxes, and 11 percent of personal income and corporation taxes. Revenues in excess of those required for debt service are transferred to the state General Fund. The outstanding debt on LRBP bonds (Series 1983B and 1985A) was $33.3 million at June 30, 1987.

Unexpended Appropriations

Remaining appropriation authority for previously authorized capital projects are routinely reappropriated by each legislature. The bills appropriating LRBP funds for each biennium generally read:

> Reappropriation. Notwithstanding any other provision of law, the remaining balances on capital projects previously appropriated are reappropriated until (the end of the coming biennium), for the purposes for which originally appropriated.

These bills also have sections which restrict expansion of existing building projects and generally read as follows:

> Expansion required to be authorized. No existing capital project may be expanded beyond the scope of the project as approved by the (current) Legislature unless the capital project expansion is authorized by an approved budget amendment.

This wording is necessary because some building projects extend over several years. In addition, some projects are delayed while agencies wait for funds to become available. However, the reappropriation provision has also enabled agencies to keep appropriation authority longer than is necessary. Following, is our analysis of the 284 LRBP appropriations listed on the state's accounting system as of August 31, 1987.

ACTIVE LRBP APPROPRIATIONS
As of August 31, 1987
(in Thousands of Dollars)

Fiscal Year	Number of Appropriations	Total Appropriations	Total Unexpended Appropriations Balance *	Percent of Appropriations Unexpended
1977-78	1	$ 91	$ 14	15.1
1978-79	1	6,450	145	2.2
1979-80	9	1,834	282	15.4
1980-81	11	12,086	150	1.2
1981-82	5	10,445	54	.5
1982-83	51	55,440	7,370	13.3
1983-84	8	17,584	4,158	23.7
1984-85	84	35,552	16,344	46.0
1985-86	25	16,403	9,620	58.6
1986-87	87	18,649	18,501	99.2
1987-88	2	519	457	88.0
Total	284	$175,053	$ 57,095	32.6

* Amounts in this column represent unused appropriation authority, not cash. Although unexpended appropriation authority exists, projects for some appropriations are not completed because the funds are not available.

Source: Compiled by the Office of the Legislative Auditor.

Illustration 1

Approximately 70 percent of the active LRBP appropriations (198 out of 284) first became available in fiscal year 1984-85 or later. Generally the older the appropriation date, the lower the percent of unexpended appropriation authority and the higher the percent of expenditure of appropriation authority. Although older appropriations tend to be more fully expended, there are many exceptions on an individual basis. Some appropriations are expended rather quickly while others tend to extend for several years. As of August 31, 1987, there were two appropriations with no funds expended which were originally appropriated in fiscal year 1979-80. We also noted there were seven fiscal year 1982-83 appropriations with none of the funds expended and nine with 100 percent of the funds expended. Appropriations that are 100 percent expended can still be classified as active and remain on the accounting records. However, appropriations for which all projects are completed are

normally removed from accounting records at the end of the fiscal year. We noted that 64 appropriations were removed after fiscal year-end 1986-87.

Audit Results

We selected 14 of the 109 partially expended appropriations dated prior to fiscal year 1985-86 to determine if the appropriations should be closed. The sample appropriations covered 50 percent of the unexpended balances of the 109 appropriations in the population. From interviews with A&E personnel, we determined projects related to 4 of the 14 appropriations sampled had no open contracts or commitments and a fifth appropriation had an open contract for additional work that was added to the project several years after the project was complete.

No state requirements exist that mandate capital project appropriations be closed within a certain time period after all obligations connected with the appropriated projects are met. Also, no time limits for completing projects have been established. A&E personnel indicated they will only close a project appropriation if all four of the following criteria are met:

1) all contracts are paid;
2) all regulatory requirements are met;
3) litigation (if any) is settled; and
4) the "client" agency gives approval.

The four appropriations we reviewed that could have been closed remained open because the "client" agency had not approved closing the appropriation. The fifth appropriation had been closed once, then was reopened to make requested improvements prior to selling a building to a private party. The total unexpended balance of these five appropriations was $1,038,112 at June 30, 1987, of which $380,051 was in A&E's Capital Projects Fund.

We also found there were no expenditures charged against 37 LRBP appropriations (totalling $9,266,570), which were established prior to fiscal year 1985-86 and on the state's accounting records at June 30, 1987. Thirteen (35 percent) of these appropriations were for Department of Military Affairs' projects totalling $4,642,000. The Department of Military Affairs also had 19 appropriations (17 percent) with total unexpended balances of $3,056,151 at

June 30, 1987 within the population of 109 partially expended appropriations from which we sampled. Department of Military Affairs officials indicated they have to get authorization from the state before federal funding can be requested, and most of the department's old authorizations were for federal money that has not materialized.

Because LRBP appropriations are not required to be closed within a certain period and because A&E personnel code equipment expenditures as capital outlay expenditures (as discussed in the accounting errors section on page 13), agencies may make expenditures for such things as equipment and building repairs from LRBP appropriations. These expenditures may be related to the original building projects but could be outside the purpose of the original appropriation, which is to construct and initially furnish a building. Also, closing appropriation balances that will not be used in a timely manner would enable legislators, budget analysts, and others to better determine if funding sources committed to those appropriations will be available for other projects.

RECOMMENDATION #2

WE RECOMMEND THE DEPARTMENT DEVELOP PROCEDURES TO FACILITATE TIMELY CLOSEOUT OF UNEXPENDED APPROPRIATION BALANCES FOR CAPITAL PROJECTS.

ACCOUNTING ISSUES

A governmental accounting system must make it possible to (a) present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the governmental unit and (b) determine and demonstrate compliance with finance-related legal and contractual provisions. Generally accepted accounting principles (GAAP) are uniform minimum standards of, and guidelines for, financial accounting and reporting. Governmental accounting systems must provide data that permit reporting on the financial status and operations of a government in conformity with GAAP to assure comparability among the financial records and reports of governmental units. Governmental accounting systems designed in conformity with these principles can readily satisfy most management

control and accountability needs with respect to both GAAP and legal compliance reporting. Sections 17-1-102 and 17-2-110, MCA, require state financial records be prepared in accordance with GAAP, effective July 1, 1985.

During this audit, we noted areas where improvement could be made in state policies established by the department to implement the state's accounting laws. We also found instances where the department's financial activity was not recorded in accordance with state accounting laws and policies. These issues are discussed in the following two sections.

State Accounting Policies

During the audit, we identified three state accounting policies that conflict with state law or permit financial activity to be recorded on the state's accounting records in a manner not in accordance with state law. These situations are summarized below.

Contributed Capital: State accounting policy provides a control account for, but does not require, certain types of contributed capital (such as start-up money for a program) to be recorded as such on the accounting records. GAAP requires contributed capital be recorded as such so that fund balance resulting from operations is identified separately from contributions to fund balance.

Intra-fund Eliminations: GAAP requires intra-fund activity be eliminated. State accounting policy, for example, directs agencies to use "Due to" and "Due from" cash cutoff adjustment control accounts for intra-fund transactions recorded during the fiscal year-end period. As a result of the policy, the "Due to" and "Due from" cash cutoff adjustment control accounts may be overstated on state agencies' accounting records at fiscal year-end. Therefore, the department's Accounting Division personnel must eliminate these overstatements for reporting purposes when they prepare the state's financial statements in accordance with GAAP. For example, Accounting Division personnel eliminated cash cutoff adjustment overstatements which totalled $4,241,889 in one fund at June 30, 1987.

Interdepartmental Eliminations: State accounting policy recognizes that GAAP requires elimination of higher education units' interdepartmental transactions for financial reporting purposes. However, state policy permits the state's higher education units to not eliminate their interdepartmental transactions as long as they send the elimination adjustment to the department's Accounting Division. If a higher education unit does not eliminate interdepartmental transactions on its accounting records, Accounting Division personnel adjust the state's financial reports to eliminate the activity. In fiscal year 1986-87, one higher education unit's Designated Fund expenditures and revenues were

overstated on its accounting records by $6,608,646 because it did not eliminate interdepartmental activity.

These three areas of difference between state accounting law and policy cause additional effort to be expended to accumulate information for statewide financial statement preparation. In addition, following state law would provide more accurate and comprehensive financial information to users of the state's accounting system.

Accounting Division advised selected state agencies regarding use of the contributed capital account in a 1985 memorandum. Accounting Division personnel stated that they plan to revise state accounting policy to address the contributed capital and interdepartmental eliminations issues. They believe their policies regarding intra-fund eliminations are practical in light of the lack of information agencies have regarding the statewide fund structure and Accounting Division's staffing limitations and priorities. The department provided four large state agencies information regarding the statewide fund structure so intra-fund eliminations could be made by those agencies in fiscal year 1986-87.

To comply with state accounting laws, the department should establish state accounting policies which, if followed, would result in financial records at each individual state agency, as well as the state as a whole, that are in accordance with GAAP. The department should also provide individual state agencies with the information necessary to record financial activity in accordance with state law.

RECOMMENDATION #3

WE RECOMMEND THE DEPARTMENT:

A. ESTABLISH STATE ACCOUNTING POLICIES WHICH ARE CONSISTENT WITH STATE LAWS.

B. PROVIDE STATE AGENCIES WITH THE INFORMATION NECESSARY TO RECORD FINANCIAL ACTIVITY IN ACCORDANCE WITH STATE LAW.

Accounting Transactions

Properly accounting for financial activity improves the quality, consistency, and comparability of the resulting financial information. Division administrators, legislators, and others use the department's financial information to manage and establish funding levels for the department. We noted several instances where department personnel made errors when recording transactions on the state's financial accounting system during the audit period. The accounting errors we noted include those listed below.

1) Architecture and Engineering Division (A&E) personnel classified moneys received from university foundations for construction projects as "Federal Assistance." The proper classification for these moneys is "Grants, Contracts, Donations and Abandonments." As a result, Federal Assistance revenues were overstated and State Grants and Contracts revenues understated on the department's accounting records in the Capital Projects Fund by $1,096,799 in fiscal year 1985-86 and $3,598,663 in fiscal year 1986-87.

2) A&E accounts for funds received in advance by recording a negative receivable rather than a liability for the advance. A&E personnel should record a liability because if the money is not spent A&E must return it to the granting agency. As a result of this procedure, the receivable account was overstated and the liability account understated on the department's accounting records in the Capital Projects Fund by $115,424 and $218,715 at June 30, 1986 and 1987, respectively.

3) A&E personnel code expenditures for purchases of equipment for capital projects to object of expenditure 4299--"Capital Outlay-Buildings-General." State policy requires all equipment expenditures to be charged to an object within the 3100 series. As a result of this procedure, the department's records overstate the cost of building construction and understate the cost of furnishing the buildings it constructed. We estimate the misstatement exceeded $750,000 in fiscal year 1985-86 and $325,000 in fiscal year 1986-87 in the department's Capital Projects Fund.

4) A&E personnel do not accrue expenditures for construction work performed but not billed prior to June 30, as required by state accounting policy. It was not practical to estimate the effect of not accruing these expenditures, but we believe the expenditure misstatements have netted out between years. A&E's liability to pay for work performed but not billed at June 30, 1987 may be understated by as much as $1,200,000. Because A&E construction expenditures are not accrued, department personnel are not able to determine the proper amount of Construction Work in Progress to capitalize at fiscal year-end.

5) Centralized Services Division (CSD) personnel abated revenue instead of recording an expenditure when making three payments for administrative costs of the state's health insurance program. As a result, fiscal year 1986-87 revenues were understated and expenditures overstated by $103,984 in the Enterprise Fund on the department's accounting records.

6) CSD personnel did not record two contractor deposit bonds on hand at June 30, 1987. Therefore, the department's Property Held in Trust and Accountability for Property Held in Trust accounts were understated by $215,000 in the Agency Fund at June 30, 1987.

7) CSD personnel classified moneys received from investment of oil overcharge funds as "Federal Assistance." The proper classification for these moneys is "Investment Earnings." As a result, Federal Assistance revenues were overstated and Investment Earnings revenues understated on the department's accounting records in the Special Revenue Fund by $164,546 in fiscal year 1986-87.

8) Property & Supply Bureau (P&S) employees capitalized fixed assets purchased in fiscal year 1986-87 at list price. State accounting policy requires fixed assets be capitalized at cost. This procedure caused the equipment and accumulated depreciation accounts to be overstated by $20,034 and $6,678, respectively, in the Internal Service Fund and on the department's property records at June 30, 1987.

9) P&S personnel recorded the same revenue twice; first when credit sales were made and again when payment was received. When payments were received, they should have reduced the receivables established when the credit sales were made, rather than recording revenue again. As a result, revenue was overstated by $52,379 in fiscal year 1986-87 and receivables were overstated by the same amount at June 30, 1987.

These accounting errors occurred for a variety of reasons. The A&E errors occurred primarily because the accountant continued to follow previously established procedures after the GAAP laws became effective. These procedures were designed to provide budgetary information on a project basis, rather than annual information on a GAAP basis. All the above errors resulted from employees' unfamiliarity with GAAP and state accounting policy, untimely reconciliation of supporting accounting information to the state's accounting system, and/or human error.

Personnel coding accounting documents within the department's various divisions should become more familiar with state accounting policy. When changes in policy occur, these personnel should determine if the changes will

impact their operations and, if so, how. Accounting personnel in the various divisions should consult with Centralized Services Division or Accounting Division personnel, as appropriate, when questions regarding state accounting policies arise. Centralized Services Division personnel should also review the department's accounting records to identify possible accounting errors and resolve them with the appropriate division personnel.

RECOMMENDATION #4

WE RECOMMEND THE DEPARTMENT IMPLEMENT PROCEDURES TO ENSURE ITS FINANCIAL ACTIVITY IS RECORDED ON THE STATE'S ACCOUNTING RECORDS IN ACCORDANCE WITH STATE LAW AND STATE ACCOUNTING POLICIES.

DEFERRED COMPENSATION PROGRAM

The department administers the state's Deferred Compensation Plan for Public Employees. Eligible employees that participate in the plan may defer state and federal income taxes on the portion of their compensation contributed to the plan. Employees may withdraw money from the plan upon termination, retirement, death, or unforeseeable emergency. The state's Deferred Compensation Program assets increased by over $14,750,000 (57 percent) during the audit period to a balance of $40,507,172 at June 30, 1987. During fiscal year 1986-87, plan participants contributed over $6,000,000 to the program. See page 35 for the complete schedule of additions and reductions to Deferred Compensation Program assets for the two fiscal years ended June 30, 1987. We identified and discuss below the following two concerns regarding the deferred compensation program: incomplete reconciliation procedures, and lack of rules for administering the plan.

Reconciliations

Section 19-2-202, MCA, requires the department to "protect the interests of program participants and safeguard the assets of the deferred compensation plan." Therefore, the department has a fiduciary responsibility to monitor deferred compensation activity, including investigating and reconciling differences between its records and insurance companies' investment reports.

Each month, department personnel in the State Personnel Division prepare a spreadsheet of deferred compensation activity. The spreadsheet shows the amounts contributed by participants and the amounts insurance companies report as invested. Department personnel compare the amounts reported and identify the amount of differences, but do not complete the reconciliation by determining the cause or the resolution of the differences. During the audit, we noted unexplained differences between the department's records and insurance company reports totalling $6,417 for fiscal year 1985-86 and $25,570 for the nine-month period from July 1, 1986 through March 31, 1987. We also noted unresolved differences between the department's manual records and its accounting system and an unexplained $670 overpayment to an insurance company which resulted in errors on the department's accounting records.

In June 1987, personnel responsible for the deferred compensation program asked the department's Centralized Services Division to review the State Personnel Division's accounting procedures for the program. Centralized Services Division personnel performed the review and, in July 1987, recommended the procedures include an exact reconciliation of amounts participants contributed to the program to amounts the investment companies report as invested in the program. State Personnel Division personnel had not implemented the procedures Centralized Services Division personnel recommended in September 1987, when we performed year-end work, but indicated in April 1988 that they had implemented some of the procedures. The State Personnel Division should implement these procedures to fulfill its responsibility regarding the deferred compensation program.

Rules

The department has not promulgated rules for administration of the state's deferred compensation plan, as required by 19-2-102(6), MCA. Department personnel said it was their understanding that the rules in the deferred compensation plan document and related contracts were sufficient to demonstrate compliance with the law. Title 2, MCA, establishes the procedures for adoption and publication of rules as defined in state law. The department should write rules for the administration of the state's deferred compensation plan through the state's established rule-making process.

RECOMMENDATION #5

WE RECOMMEND THE DEPARTMENT:

A. FULLY RECONCILE DEFERRED COMPENSATION PROGRAM PARTICIPANT CONTRIBUTIONS TO INVESTMENT REPORTS.

B. WRITE RULES FOR THE ADMINISTRATION OF THE STATE'S DEFERRED COMPENSATION PLAN THROUGH THE STATE'S ESTABLISHED RULE-MAKING PROCESS, AS REQUIRED BY STATE LAW.

USE OF SELF-INSURANCE PROCEEDS

In June 1986, a flood occurred in the basement of the building occupied by the Publications and Graphics Division (P&G). The flood damaged the boiler, as well as equipment and office furniture that had been stored in the basement while the second floor was being remodeled. P&G employees listed the damages and estimated the repair and replacement cost of the damaged items to be $111,758. P&G submitted a claim for that amount to the insurance company with which the state has a flood policy. Since the claim was under the state's deductible limit of $250,000, it was then submitted to Tort Claims Division. As P&G repaired and replaced items, it turned the bills over to Tort Claims Division, which paid the bills.

During our audit, we noted that P&G ordered and Tort Claims paid from the self-insurance fund for a microcomputer and related software costing $5,557. No microcomputers were listed on P&G's inventory of flood-damaged items. P&G also purchased eight upholstered chairs for $2,121, ten chairs for $2,870, and five tables for $452 with insurance proceeds through Tort Claims Division. According to P&G's inventory list, only 9 chairs and 4 tables (with an estimated replacement cost of $2,983) were damaged. The purchase of additional items was funded by not replacing some of the damaged items listed in P&G's $111,758 settlement claim.

Section 2-17-105, MCA, specifies the permissible uses of insurance proceeds for buildings, which our legal counsel interprets to cover contents of buildings. This section provides that insurance proceed moneys "are statutorily appropriated . . . and may only be:

(a) used to repair the damaged property;
(b) used to replace the damaged property, . . . ; or
(c) transferred to the fund and account from which the premiums were paid on the policy covering the building. Moneys transferred in this manner may not be spent by the institution or agency having custody of the damaged property but shall be available for future legislative appropriation."

The department expended approximately $8,000 of the insurance proceeds contrary to the requirements of this state law. Department personnel stated that they believed they had the authority to spend the insurance settlement the way they chose to spend it under section 2-9-202, MCA. However, this section of the law applies to liability settlements. Department personnel should have followed state law regarding property insurance settlements.

RECOMMENDATION #6

WE RECOMMEND THE DEPARTMENT COMPLY WITH 2-17-105, MCA, AND USE INSURANCE PROCEEDS IN ACCORDANCE WITH STATE LAW.

PURCHASE ORDERS

Management Memo 2-76-1 requires purchase orders issued against succeeding year appropriations to contain the following statement:

"NOTICE: This is a July 19XX order. Delivery cannot be performed prior to July 1, 19XX. Invoices or billings will NOT be processed prior to July 1."

State accounting policy generally requires expenditures be recorded in the fiscal year the goods or services ordered are received. Consequently, in situations where purchase orders are issued against succeeding year appropriations but delivery is permitted and occurs in the current year, it would be possible to exceed appropriation authority for the current year.

We noted a situation where the department's Publications and Graphics Bureau (P&G) improperly issued a purchase order against a succeeding year appropriation. The purchase order, which required delivery of printed forms for the Department of Justice by May 15, 1987, states it is a July order and no invoice or billing will be processed prior to July 1, 1987. The invoice for the printed forms is dated May 18, 1987, and the transfer warrant claim that

initiated the contractor's payment is dated July 23, 1987. Since the forms were received prior to fiscal year-end, state law and accounting policy require the expenditure to be recognized in fiscal year 1986-87. However, P&G did not record the expenditure for payment of the printing services and the related revenue from the Department of Justice until fiscal year 1987-88. The Department of Justice did not record its related expenditure to reimburse P&G until fiscal year 1987-88. We also noted other instances where P&G and Property & Supply Bureau personnel did not use the language required by Management Memo 2-76-1 when issuing purchase orders against succeeding year appropriations.

P&G personnel indicated that purchase orders for printing, including the delivery and billing requirements, are prepared directly from the requisition submitted by the state agencies. The Department of Justice's requisition requested partial delivery of the printed forms in May 1987, with the remainder to be delivered by July 1, 1987, but P&G issued the purchase order requiring delivery of all the forms by May 15, 1987. Section 18-7-101, MCA, gives the department the authority to contract for all state printing and section 18-7-106, MCA, prohibits the department from approving state printing claims unless the department prepared and approved a purchase order prior to ordering the printing. Therefore, P&G and its purchasing agents have the statutory authority and responsibility to deny a requisition that is not worded properly in accordance with state law and/or policy. When a requisition is not worded properly, P&G should return the requisition to the agency for revision.

Property & Supply Bureau personnel indicated they were not familiar with, and did not believe they ever used, the required language for purchase orders against succeeding year appropriations. The department should provide appropriate supervision regarding the proper preparation and approval of purchase orders to ensure department personnel issue purchase orders that comply with applicable state laws and policies.

RECOMMENDATION #7

WE RECOMMEND THE DEPARTMENT PROVIDE APPROPRIATE SUPERVISION TO PERSONNEL RESPONSIBLE FOR ISSUING PURCHASE ORDERS TO ENSURE THE PURCHASE ORDERS COMPLY WITH APPLICABLE STATE LAWS AND POLICIES.

UNUSED BOND PROCEEDS

The legislature appropriated $1,300,000 of general obligation bond (1983 Series B) proceeds in the Capital Projects Fund for municipal airport improvement loans during the two fiscal years ended June 30, 1985. The Aeronautics Division at the Department of Commerce administered the project application process. At the end of the two year time limit set by the legislature, more than $200,000 of these airport improvement funds remained. The Department of Administration placed the remaining funds in a Debt Service Fund account at Architecture & Engineering Division. According to department personnel, they reverted the unexpended balance and committed the investment income from these unexpended funds to the Debt Service Fund to lower debt service demands on the Long Range Building Program's Capital Projects Fund.

On July 24, 1985, the Board of Examiners issued $8,550,000 of General Obligation bonds for the Long Range Building Program (Series 1985A). The legislature appropriated $1,700,000 of these proceeds to make airport improvement loans and $1,400,000 to build a swimming pool at Western Montana College. As of August 31, 1987, $1,592,166 of the airport loan funds and $1,369,413 of the swimming pool funds, or 34.5% of the bond proceeds, remained unexpended. Financial conditions make use of the funds for the designated projects unlikely.

State law does not specifically address the disposition of unused bond proceeds. Section 17-7-304, MCA, states "All moneys appropriated for any specific purpose shall, after the expiration of the time for which so appropriated, revert to the several funds and accounts from which originally appropriated." Since the airport improvement moneys were originally appropriated from the Capital Projects Fund and the original appropriation and related statutes did not state the disposition of any remaining bond proceeds, the remaining moneys should have reverted to the Capital Projects Fund. The method used to record these transactions caused activity and account balances to be overstated in the Debt Service Fund and understated in the Capital Projects Fund on the state's accounting records.

RECOMMENDATION #8

WE RECOMMEND THE DEPARTMENT SEEK LEGISLATION CLARIFYING THE DISPOSITION OF UNUSED BOND PROCEEDS.

TELECOMMUNICATION RECOVERY AND SECURITY CONTROLS

The Information Services Division's Telecommunications Bureau is responsible for managing the state's telephone system. The bureau does not have a written disaster recovery plan to ensure the continuity of telecommunication services and operations after major destruction of equipment. Physical security over telecommunication equipment, which is located adjacent to a cafeteria in the basement of a building, is not adequate. The entrance to the equipment room is through a single wooden door which, although it has security locks, is not always closed. The location of the equipment next to a cafeteria greatly increases the potential for damage to equipment from fire, as well as increased security problems from people passing by the equipment room on their way to and from the cafeteria.

If the telecommunications equipment were damaged, the state could incur significant costs as a result of state personnel not being able to communicate in a timely manner, in addition to the costs necessary to repair and/or replace the damaged equipment. In a June 23, 1987, memorandum to the Information Services Division administrator, the Telecommunications bureau chief stated "The value of the communications and computer systems located in the basement of the Mitchell Building can be conservatively estimated at $10,000,000. This figure represents the approximate value of the equipment, and does not consider the value of the data stored within the computer center. . . . The replacement cost for these critical systems in the event of major disaster would be considerably higher than the value of the equipment."

Department employees have noted the problem and plan to hire a consultant to evaluate the department's information technology security. This project is expected to be complete by June 30, 1988. When the study is complete, bureau personnel plan to integrate the results of the study with their own recommendations to formulate a disaster recovery plan for telecommunications and to improve physical safeguards over telecommunication equipment.

RECOMMENDATION #9

WE RECOMMEND THE DEPARTMENT WRITE A TELECOMMUNICATIONS DISASTER RECOVERY PLAN AND PROVIDE ADEQUATE PHYSICAL SECURITY OVER TELECOMMUNICATIONS EQUIPMENT.

CONTRACTED SERVICES

Our office issued a performance audit report titled State Agency Use of Contracted Services (87P-35) in December 1987. The report discusses concerns regarding management controls and agency use of contracted services in state government. The performance audit results at the Department of Administration indicated that, overall, contracts appeared to be effective, monitoring procedures were adequate, and modifications of contracts were not excessive or did not cost a significant amount. The performance audit report addressed specific concerns affecting the state as a whole but did not discuss the department specifically. The significant performance audit findings related to the department are summarized below.

1) Of the 53 contracts reviewed at the department, 33 contracts (67 percent) did not include one or more of the 16 minimum requirements established by Governor's Management Memo 4-81-4R. The department should ensure adequate and consistent handling of its contracts.

2) None of the contract files tested contained documentation certifying that the contractor was covered by Worker's Compensation Insurance or was exempt from such coverage. Governor's Management Memo 4-81-4R specifies that when independent contractor status is sought by a contractor, certification is required from the Division of Workers' Compensation (DWC) establishing that the contractor has elected workers' compensation coverage for himself or he has an approved exemption from coverage. If the contractor is not covered by workers' compensation insurance or has not received an approved exemption, the state could be held liable for injuries incurred by the contractor or his employees during the performance of the contract.

3) Three private consultant contracts exceeding $5,000 and one projected to exceed $5,000 were not competitively bid. Department personnel indicated the bidding process was waived because these were sole source contracts. However, we found no documentation justifying the sole source determination. Section 18-8-105(2), MCA, requires competitive bidding when "it is reasonably foreseeable that a proposed contract for private consultant services will exceed $5,000 . . ." Management Memo 4-83-1R further details the bidding process and when it is appropriate to waive the process. Manage-

ment Memo 4-83-1R also requires that waiver criteria "be clearly specified and documented prior to selection activities . . ." The department should adequately document each sole source justification or competitively bid the contract.

Subsequent to issuance of the audit report on State Agency Use of Contracted Services, a task force was appointed to address the contracted services issues. The task force has proposed changing expenditure codes used for recording contracted service expenditures, revised management memorandums addressing contracted services, and planned training for agency personnel who deal with contracted services.

RECOMMENDATION #10

WE RECOMMEND THE DEPARTMENT COMPLY WITH STATE LAW AND POLICY BY:

A. ENSURING ADEQUATE AND CONSISTENT HANDLING OF ITS CONTRACTS.
B. MAINTAINING DOCUMENTATION CERTIFYING WORKERS' COMPENSATION INSURANCE COVERAGE OR AN APPROVED EXEMPTION FOR CONTRACTORS.
C. DOCUMENTING EACH SOLE SOURCE PRIVATE PROFESSIONAL SERVICE CONTRACT JUSTIFICATION OR COMPETITIVELY BIDDING THE CONTRACT.

RECORDS RETENTION

Section 2-6-213, MCA, requires each executive branch agency to "analyze records inventory data" and "review established records retention schedules to insure that they are complete and current." The Records Management Section of the Department of Administration's Information Services Division maintains each agency's record retention schedule and establishes record retention policies in conjunction with the State Records Committee. An agency must file a record retention schedule only for public records unique to that agency, since records common to all agencies must be retained in accordance with Chapter 1-1300 of the Montana Operations Manual. Section 2-6-202, MCA, defines a "public record" as "any . . . document, including all copies thereof,

regardless of physical form or characteristics, that has been made or received by a state agency in connection with the transaction of official business. . ." The purpose of these requirements is to prevent the loss of important information and to eliminate cost of storing unnecessary information.

As noted in the prior audit report, the Records Management Section's records show that:

(1) the Department of Administration does not have record retention schedules for all of its divisions, bureaus, and sections with unique documents; and

(2) the divisions, bureau, and section that have schedules do not update them in a regular and timely manner.

For example, we noted in the prior audit report the department's Accounting and Information Services Divisions have not established record retention schedules for certain documents unique to the divisions. These documents include the Statewide Budgeting and Accounting System (SBAS) reports of entities with negative cash, appropriations with negative balances, revenue estimates with negative collection balances, and rejected SBAS documents, as well as warrant writer recap and daily monitor and parameter reports. Because these public records are not on the department's record retention schedules, they are destroyed without required approval from the State's Record Committee.

During the current audit, we also noted that the Information Center Bureau within the department's Information Services Division does not retain employee time sheets. Time sheets are public records, as defined by section 2-6-202, MCA and, according to Chapter 1-0890.17 of the Montana Operations Manual, should be retained for three years before they are destroyed. Division personnel explained that summary time sheets are prepared from the individual time sheets. They believed the summary time sheets, along with individual employees' leave request forms, provided sufficient documentation to support payroll transactions. If it were departmental policy to post time to a summary on an exception basis, it would be appropriate for the bureau to retain records in this manner. However, since bureau employees generate a time sheet, the time sheet is considered a public record and must be retained in accordance with state law and records retention schedules.

Following is a list of the department's record retention schedules as of October 10, 1987, and the date each schedule was last updated.

Accounting Division	2/07/83
Personnel Division	6/04/84
Purchasing Division	3/18/85
Treasury Bureau	4/30/80
Records Management Section	1/15/81

In the prior audit, we recommended the department establish procedures to ensure compliance with state records retention laws. The department concurred with our recommendation. Centralized Services Division personnel stated they completed schedules by April 1, 1988 for submission to the Records Management Committee.

RECOMMENDATION #11

WE RECOMMEND THE DEPARTMENT COMPLY WITH STATE LAW BY:

A. ESTABLISHING RECORDS RETENTION SCHEDULES FOR ALL ITS UNIQUE DOCUMENTS.
B. UPDATING RECORDS RETENTION SCHEDULES ON A REGULAR AND TIMELY BASIS.
C. RETAINING RECORDS IN ACCORDANCE WITH ESTABLISHED RECORDS RETENTION SCHEDULES.

SUGGESTED STATUTORY CHANGES

While testing compliance with selected state laws, we noted three laws affecting the department's operations that should be repealed or revised. These laws concern the department's responsibilities regarding the state land equalization payment, the merit system council, and printing.

State Land Equalization Payment

Section 77-1-505, MCA, requires the department to "approve and authorize the issuance of a warrant on the general fund of the state . . . for the payment of the state land equalization payment" by December 1. The department processed the 1986 claim on December 24, 1986, the date the Department of State Lands submitted the claim. The Department of State Lands submitted the claim late because county information was submitted to the Department of

State Lands late. Section 77-1-503, MCA, requires county information be provided by the Department of Revenue agent in each county by October 1. The Department of Administration cannot comply with the law as written unless the Departments of Revenue and State Lands also comply with the law. The departments should work together to resolve the procedural problems resulting in untimely state land equalization payments and, if necessary, seek legislation to revise the laws regarding state land equalization payments.

Merit System Council

The merit system council established and administratively attached to the department in section 2-15-1006, MCA, no longer exists. The department disbanded the council based on an April 6, 1984, district court ruling which concludes that the "statute on which the Council relies for its authority, 2-18-105, is . . . a nullity as an unconstitutional delegation of legislative authority." The department should seek repeal of laws concerning the state's merit system and merit system council.

Printing

The department does not serially number and index all forms, blanks, and documents printed for distribution and permanently retain sample copies of each, as required by section 18-7-101(3), MCA. Due to space constraints, department personnel questioned the need to keep obsolete forms which will not be reordered. They also noted that, if a printing job is contracted with a private printer, they often do not receive samples of the finished product. When they do receive samples from contract jobs, they keep the samples with the related purchase orders. The department should seek modification of the printing law to allow it to retain sample copies of each form, blank, and document printed in accordance with state records retention laws and policies.

RECOMMENDATION #12

WE RECOMMEND THE DEPARTMENT:

A. WORK WITH THE DEPARTMENTS OF REVENUE AND STATE LANDS AND, IF NECESSARY, SEEK CHANGES IN STATE LAW TO ENSURE

TIMELY STATE LAND EQUALIZATION PAYMENTS ARE MADE TO COUNTIES.

B. SEEK REPEAL OF LAWS RELATING TO THE MERIT SYSTEM WHICH WERE DETERMINED UNCONSTITUTIONAL BY THE DISTRICT COURT.

C. SEEK MODIFICATION OF PRINTING LAWS TO ALLOW THE DEPARTMENT TO RETAIN SAMPLES OF PRINTED MATERIALS IN ACCORDANCE WITH STATE RECORDS RETENTION POLICIES.

AUDITOR'S OPINION LETTER AND AGENCY FINANCIAL SCHEDULES

The investment earnings accrual at fiscal year-end 1986 was not properly reversed in fiscal year 1986-87. As a result, Prior Year Revenue Adjustment is understated and current year Investment Earnings revenue is overstated by $836,234 in the Capital Projects Fund in fiscal year 1986-87.

In our opinion, except for the effect of the matters discussed in paragraphs three through five, the Schedules of Budgeted Revenue & Transfers-In - Estimated and Actual present fairly the results of operations of the Department of Administration for each of the two fiscal years ended June 30, 1986 and 1987, in conformity with the basis of accounting described in Note 1, which has been applied on a consistent basis.

In our opinion, the financial schedules listed below present fairly the results of operations and changes in fund balances of the Department of Administration for the fiscal years ending June 30, 1986 and 1987, in conformity with the basis of accounting described in Note 1, which has been applied on a consistent basis.

Schedule Name	Fiscal Year
Schedule of Changes in Fund Balances	Two Fiscal Years Ended June 30, 1987
Schedule of Budgeted Program Expenditures & Transfers-Out by Object and Fund	1986-87
Schedule of Budgeted Program Expenditures & Transfers-Out by Object and Fund	1985-86
Schedule of Additions and Reductions to Deferred Compensation Program Assets	Two Fiscal Years Ended June 30, 1987
Schedule of Changes in Fund Balance for Architecture and Engineering's Construction Advances Account	Two Fiscal Years Ended June 30, 1987

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

March 16, 1988

FUND BALANCE: July 1

ADDITIONS

Fiscal Year 1985-86

Budgeted Revenue &
Nonbudgeted Revenue
Prior Year Revenue
Direct Entries to F
Cash Transfers In

Fiscal Year 1986-87

Budgeted Revenue &
Nonbudgeted Revenue
Prior Year Revenue
Prior Year Transfer
Direct Entries To F
Cash Transfers In
Total Additions

REDUCTIONS

Fiscal Year 1985-86

Budgeted Expenditur
Nonbudgeted Expendi
Prior Year Expendit
Prior Year Expendit
Nonbudgeted Prior Y
Adjustments
Support to State of
Direct Entries to F

Fiscal Year 1986-87

Budgeted Expenditur
Nonbudgeted Expendi
Prior Year Expendit
Prior Year Expendit
Prior Year Transfer
Nonbudgeted Prior Y
Adjustments
Support To State Of
Direct Entries To F
Total Reductions

FUND BALANCE: June 3

(A) These were one-
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notes to the financi

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Schedule of Changes in Fund Balance for Architecture and Engineering's Construction Advances Account	Two Fiscal Years Ended June 30, 1987

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

March 16, 1988

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1987

	General Fund	Special Revenue Fund	Debt Service Funds	Capital Project Funds	Enterprise Funds	Internal Service Funds
FUND BALANCE: July 1, 1985	$ -0-	$ 1,294,640	$ 8,502,070	$ 35,384,195	$14,415,074	$14,472,681
ADDITIONS						
Fiscal Year 1985-86:						
Budgeted Revenue & Transfers In	52,706,814	12,553,291	36,125	13,926,439	19,431,479	29,590,511
Nonbudgeted Revenue & Transfers In	7,188	600	14,557,920	1,269		475
Prior Year Revenue Adjustments	2,009,913	657		2,040,381	108,543	515,121
Direct Entries to Fund Balance	3,500,000 (A)					
Cash Transfers In		1,310,425	35,485,106	2,540,295		
Fiscal Year 1986-87:						
Budgeted Revenue & Transfers In	51,831,283	5,859,881	35,700	10,822,587	20,270,136	30,526,397
Nonbudgeted Revenue & Transfers In	94,430		14,756,291	121,473		
Prior Year Revenue Adjustments	7,012		(1,390)	(816,234)	(1,671)	(13,399)
Prior Year Transfer In Adjustments			49,107			
Direct Entries To Fund Balance	40,994,794 (A)		176,866			397,899
Cash Transfers In		3,831,677	35,258,824	2,350,766		
Total Additions	151,151,434	23,556,531	100,354,549	30,986,976	39,808,487	61,017,004
REDUCTIONS						
Fiscal Year 1985-86:						
Budgeted Expenditures & Transfers Out	16,073,197	2,597,727		24,421,134	15,465,920	28,803,908
Nonbudgeted Expenditures & Transfers Out	325	(47,278)	48,588,972		1,009	135,923
Prior Year Expenditures				(269)		
Prior Year Expenditure Adjustments	(159,974)	(2,563)			38,712	13,600
Nonbudgeted Prior Year Expenditure Adjustments		(145,417)			6,429	561,807
Support to State of Montana	42,310,367					
Direct Entries to Fund Balance		337,009	327,176	2,680		339,456
Fiscal Year 1986-87:						
Budgeted Expenditures & Transfers Out	19,187,394	6,559,748		19,244,218	17,844,100	33,174,755
Nonbudgeted Expenditures & Transfers Out		(60,556)	49,877,008	121,473	147,199	(205,013)
Prior Year Expenditures	(297)	367		(231,284)		
Prior Year Expenditure Adjustments	8,965	(165)		1,571	62,155	(41,419)
Prior Year Transfer Out Adjustments	49,107			40,779		
Nonbudgeted Prior Year Expenditure Adjustments					3,193,112	(446,446)
Support To State Of Montana	73,682,350					
Direct Entries To Fund Balance		189,076		5,144,794 (A)		
Total Reductions	151,151,434	9,427,948	98,793,156	48,745,096	36,758,636	62,336,571
FUND BALANCE: June 30, 1987	$ -0-	$15,423,223	$10,063,463	$17,626,075	$17,464,925	$13,153,114

(A) These were one-time residual equity transfers to the General Fund authorized by the Legislature in the June 1986 Special Session for fiscal year 1985-86 and in the 1987 Regular Session for fiscal year 1986-87.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 37 through 42.

GENERAL FUND
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SPECIAL REVENUE
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CAPITAL PROJECTS
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ENTERPRISE FUNDS
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DEPARTMENT OF ADMINISTRATION

SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATED & ACTUAL

FOR THE FISCAL YEAR ENDED JUNE 30, 1987

	Licenses and Permits	Taxes	Charges For Services	Investment Earnings	Fines & Forfeits	Other Financing Sources	Federal	Sale of Documents, Merchandise, & Property	Miscellaneous	Total
GENERAL FUND										
Estimated Revenue	$2,880,000	$ 1,500	$ 102,000	$10,208,000	$625,000	$35,581,001				$ 49,397,501
Actual Revenue	2,723,410	470	134,011	12,826,673	608,074	35,538,645				51,831,283
Collections Over (Under) Estimate	$ (156,590)	$(1,030)	$ 32,011	$ 2,618,673	$(16,926)	$ (42,356)				$ 2,433,782
SPECIAL REVENUE FUNO										
Estimated Revenue	$ 2,000		$ 242,053	$ 749,623		$ 667,474	$ 3,906,842			$ 5,567,992
Actual Revenue	2,235		184,074	761,721		663,897	4,247,954			5,859,881
Collections Over (Under) Estimate	$ 235		$ (57,979)	$ 12,098		$ (3,577)	$ 341,112			$ 291,889
DEBT SERVICE FUNDS										
Estimated Revenue			$ 20,000	$ 10,000						$ 30,000
Actual Revenue			19,476	16,224						35,700
Collections Over (Under) Estimate			$ (524)	$ 6,224						$ 5,700
CAPITAL PROJECTS FUNDS										
Estimated Revenue			$ 793,001	$ 2,123,769		$ 1,031,000	$ 17,753,201		$10,000	$ 21,710,971
Actual Revenue			841,868	2,157,836		3,909,707	3,903,176		10,000	10,822,587
Collections Over (Under) Estimate			$ 48,867	$ 34,067		$ 2,878,707	$(13,850,025) (A)		$ -0-	$(10,888,384)
ENTERPRISE FUNDS										
Estimated Revenue			$16,426,000	$ 1,450,000						$ 17,876,000
Actual Revenue			18,606,148	1,663,988						20,270,136
Collections Over (Under) Estimate			$ 2,180,148	$ 213,988						$ 2,394,136
INTERNAL SERVICE FUNDS										
Estimated Revenue			$27,008,329	$ 2,151,621		$ 2,059,259		$3,400,500	$ 20,000	$ 34,639,709
Actual Revenue			25,572,321	1,619,050		899,086		2,428,940	7,000	30,526,397
Collections Over (Under) Estimate			$(1,436,008)	$ (532,571)		$(1,160,173)		$ (971,560)	$(13,000)	$ (4,113,312)

(A) See Footnote 8.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 37 through 42.

GENERAL FUND
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DEPARTMENT OF ADMINISTRATION

SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATED & ACTUAL

FOR THE FISCAL YEAR ENDED JUNE 30, 1986

	Licenses & Permits	Taxes	Charges for Services	Investment Earnings	Fines & Forfeits	Other Financing Sources	Federal	Sale of Documents, Merchandise, & Property	Miscellaneous	Total
GENERAL FUND										
Estimated Revenue	$2,151,465	$ 6,000	$ 70,000	$22,656,000	$1,388,562	$39,155,000				$ 65,427,027
Actual Revenue	2,578,754	1,520	69,980	13,285,291	711,142	36,060,127				52,706,814
Collections Over (Under) Estimate	$ 427,289	$(4,480)	$ (20)	$(9,370,709)	$ (677,420)	$(3,094,873)				$(12,720,213)
SPECIAL REVENUE FUND										
Estimated Revenue	$ 2,000		$ 285,617	$ 461,486		$ 2,332,018	$ 9,584,666		$ 1	$ 12,665,788
Actual Revenue	2,295		206,999	404,989		2,354,342	9,584,666		0	12,553,291
Collections Over (Under) Estimate	$ 295		$ (78,618)	$ (56,497)		$ 22,324	$ 0		$ (1)	$ (112,497)
DEBT SERVICE FUNDS										
Estimated Revenue			$ 20,000	$ 10,001		$ 1				$ 30,002
Actual Revenue			19,476	16,649		0				36,125
Collections Over (Under) Estimate			$ (524)	$ 6,648		$ (1)				$ 6,123
CAPITAL PROJECTS FUNDS										
Estimated Revenue			$ 785,001	$ 4,994,600		$ 9,425,000	$ 18,850,000			$ 34,054,601
Actual Revenue			610,276	2,891,547		9,327,817	1,096,799			13,926,439
Collections Over (Under) Estimate			$ (174,725)	$(2,103,053)		$ (97,183)	$(17,753,201) (A)			$(20,128,162)
ENTERPRISE FUNDS										
Estimated Revenue			$19,421,000	$ 1,455,000						$ 20,876,000
Actual Revenue			17,964,585	1,466,894						19,431,479
Collections Over (Under) Estimate			$(1,456,415)	$ 11,894						$ (1,444,521)
INTERNAL SERVICE FUNDS										
Estimated Revenue			$26,389,847	$ 2,178,732		$ 591,306		$ 3,569,744		$ 32,729,629
Actual Revenue			24,758,357	1,939,418		478,304		2,414,432		29,590,511
Collections Over (Under) Estimate			$(1,631,490)	$ (239,314)		$ (113,002)		$(1,155,312)		$ (3,139,118)

(A) See Footnote 8.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 37 through 42.

	Director's Office	Accounting Division	Aids & Tax & icipation Notes	Oil Overcharge Funds	Departments & Agencies	University System	Institutions	Total	
PERSONAL SERVICES									
Salaries	$227,334	$261,907	$				$ 4,959	$ 8,182,544	
Hourly Wages								1,069	
Other Compensation	25							199,878	
Employee Benefits	43,920	55,475					1,020	1,743,917	
Total	271,279	317,382					5,979	10,127,408	
OPERATING EXPENSES									
Contracted Services	4,386	405,959						3,841,943	
Supplies & Materials	1,283	1,517						415,336	
Communications	4,908	12,008						5,993,866	
Travel	1,068	838					304	149,942	
Rent	7,765	8,278						1,410,104	
Utilities								880,337	
Repair & Maintenance	328	716						952,093	
Other Expenses	1,947	4,270						119,501	
Goods Purchased For Resale								4,246,044	
Total	21,685	433,586					304	18,009,166	
EQUIPMENT AND INTANGIBLE ASSETS									
Equipment	10,079	26,988						627,706	
Intangible Assets	2,784	3,506						45,793	
Total	12,863	30,494						673,499	
CAPITAL OUTLAY									
Land & Interest in Land					$ 67,347	$ 230		67,577	
Buildings					7,570,122	5,131,298	5,029,284	17,730,704	
Other Improvements		1,281						3,005	
Total		1,281			7,637,469	5,131,528	5,029,284	17,801,286	
LOCAL ASSISTANCE									
From State Sources			60,556					69,769	
Total			60,556					69,769	
GRANTS									
From State Sources					34,400			34,400	
Total					34,400			34,400	
BENEFITS & CLAIMS									
From State Sources								16,873,161	
Insurance Payments								5,423,717	
Total								22,296,878	
TRANSFERS									
Accounting Entity Transfers			1,368,782	$1,666,000	4,363,077	12,562		18,996,883	
Total			1,368,782	1,666,000	4,363,077	12,562		18,996,883	
DEBT SERVICE									
Bonds			4,335,254					4,372,085	
Leases								3,276	
Installment Purchases								1,902,080	
Lease Participation Notes								1,723,485	
Total			4,335,254					8,000,926	
TOTAL PROGRAM EXPENDITURES	$305,827	$782,743	$15,764,592	$1,666,000	$12,034,946	$ 5,144,090	$ 5,035,567	$96,010,215	
GENERAL FUND									
Budgeted	$266,205	$790,278	6,750,919					$21,192,100	
Actual	262,463	782,743	5,213,421					19,187,394	
Unspent Budget Authority	$ 3,742	$ 7,535	1,537,498					$ 2,004,706	
SPECIAL REVENUE FUND									
Budgeted			$ 1,977,353	$1,666,000	$13,719,132		$ 614,607	$19,406,095	
Actual			384,305	1,666,000	3,250,322		414,607	6,559,748	
Unspent Budget Authority			$ 1,593,048	$ 0	$10,468,810		$ 200,000	$12,846,347	(Note 8)
CAPITAL PROJECTS FUNDS									
Budgeted			$ 636,665		$35,963,571	$17,436,595	$10,261,952	$64,898,269	
Actual			166,866		8,733,488	5,144,090	4,620,960	19,244,218	
Unspent Budget Authority			$ 469,799		$27,230,083	$12,292,505	$ 5,640,992	$45,654,051	(Note 8)
ENTERPRISE FUNDS									
Budgeted					$ 50,000			$19,312,868	
Actual								17,844,100	
Unspent Budget Authority					$ 50,000			$ 1,468,768	
INTERNAL SERVICE FUNDS									
Budgeted	$ 43,366				$ 51,136			$40,072,962	
Actual	43,364				51,136			33,174,755	
Unspent Budget Authority	$ 2				$ 0			$ 6,898,207	

his schedule is prepared from the Statewide Budgeting and A
ges 37 through 42.

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES
AND TRANSFERS OUT BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

	Director's Office	Accounting Division	Architecture & Engineering Division	Publications & Graphics Division	Information Services Division	General Services Division	Property & Supply Bureau	Purchasing Division	Mail & Distribution Bureau	Centralized Services Division	Investment Division	State Personnel Division	Tort Claims Division	Passenger Tramway Safety	Workers' Compensation Judge	State Tax Appeal Board	Bonds & Tax Anticipation Notes	Oil Overcharge Funds	Departments & Agencies	University System	Institutions	Total
PERSONAL SERVICES																						
Salaries	$227,334	$261,907	$ 358,065	$ 558,141	$ 3,111,626	$ 823,763	$ 285,538	$295,383	$ 136,628	$294,950	$436,578	$ 844,490	$ 202,180		$194,497	$146,505					$ 4,959	$ 8,182,544
Hourly Wages			600		469																	1,069
Other Compensation	25										6,300			$ 225		193,328						199,678
Employee Benefits	43,920	55,475	70,897	126,673	635,679	214,758	67,412	62,493	40,087	61,700	80,908	177,165	39,658		36,040	30,032					1,020	1,743,917
Total	271,279	317,382	429,562	684,814	3,747,774	1,038,521	352,950	357,876	176,715	356,650	523,786	1,021,655	241,838	225	230,537	369,865					5,979	10,127,408
OPERATING EXPENSES																						
Contracted Services	4,386	405,959	24,256	34,115	192,820	823,405	31,256	34,983	4,807	34,062	114,661	839,958	1,054,675	9,413	29,996	203,191						3,841,943
Supplies & Materials	1,283	1,517	5,061	9,543	262,605	63,244	15,422	2,967	580	2,374	2,528	8,797	9,893	171	6,758	22,593						415,336
Communications	4,908	12,008	17,879	23,332	4,989,006	7,021	15,572	22,519	772,905	8,349	28,906	42,111	8,067	43	12,900	28,340						5,993,866
Travel	1,066	838	9,917	1,953	48,174	115	1,440	2,474		1,017	11,793	11,418	16,398	656	9,437	32,940					304	169,942
Rent	7,765	8,278	24,263	82,328	696,122	389,577	60,730	14,963	19,044	11,448	43,308	37,293	6,684		1,581	6,720						1,410,104
Utilities					738	868,690	10,909															880,337
Repair & Maintenance	328	716	1,076	320,719	464,154	118,973	27,135	886	4,669	977	2,538	3,432	4,433		960	1,097						952,093
Other Expenses	1,947	4,270	1,706	2,710	63,316	14,546	1,444	2,566	12,216	1,358	3,770	25,094	3,259	232	378	689						119,501
Goods Purchased For Resale				2,161,824	147,383		1,916,837															4,246,044
Total	21,685	433,586	84,158	2,636,524	6,864,318	2,285,571	2,080,745	81,358	814,221	59,585	207,504	968,103	1,103,409	10,515	62,010	295,570					304	18,009,166
EQUIPMENT AND INTANGIBLE ASSETS																						
Equipment	10,079	26,988	5,057	58,508	415,448	4,877	59,185	1,446	108	14,622	8,292	15,451	4,805		2,012	828						627,706
Intangible Assets	2,784	3,506	405		51,904	650	486	2,333		2,089		1,636										45,793
Total	12,863	30,494	5,462	58,508	467,352	5,527	59,671	3,779	108	16,711	8,292	17,087	4,805		2,012	828						673,499
CAPITAL OUTLAY																						
Land & Interest In Land																			$ 67,347	$ 230		67,577
Buildings																			7,570,122	5,131,298	5,029,284	17,730,704
Other Improvements		1,281			728					996												3,005
Total		1,281			728					996									7,637,469	5,131,528	5,029,284	17,801,286
LOCAL ASSISTANCE																						
From State Sources											9,213						$ 60,556					69,769
Total											9,213						60,556					69,769
GRANTS																						
From State Sources																			34,400			34,400
Total																			34,400			34,400
BENEFITS & CLAIMS																						
From State Sources												16,873,161										16,873,161
Insurance Payments													5,423,717									5,423,717
Total												16,873,161	5,423,717									22,296,878
TRANSFERS																						
Accounting Entity Transfers			540,684		20,033	145,058						31,613	849,074				11,368,782	$1,666,000	4,363,077	12,562		18,996,883
Total			540,684		20,033	145,058						31,613	849,074				11,368,782	1,666,000	4,363,077	12,562		18,996,883
DEBT SERVICE																						
Bonds					36,831												4,335,254					4,372,085
Leases									3,276													3,276
Installment Purchases				341,335	1,553,724						7,021											1,902,080
Lease Participation Notes					1,723,485																	1,723,485
Total				341,335	3,314,040				3,276		7,021						4,335,254					8,000,926
TOTAL PROGRAM EXPENDITURES	$305,827	$782,743	$1,059,866	$3,721,181	$14,394,245	$3,474,677	$2,493,366	$443,013	$ 994,320	$433,942	$755,816	$18,911,619	$ 7,622,043	$10,740	$294,559	$666,263	$15,764,592	$1,666,000	$12,034,946	$ 5,144,090	$ 5,035,567	$96,010,215
GENERAL FUND																						
Budgeted	$266,205	$790,278				$ 515,689		$446,050	$ 3,143	$414,636	$250,000	$ 947,128				$808,052	$16,750,919					$21,192,100
Actual	262,463	782,743				470,239		443,013		407,278	9,213	932,761				666,263	15,213,421					19,187,394
Unspent Budget Authority	$ 3,742	$ 7,535				$ 45,450		$ 3,037	$ 3,143	$ 7,358	$240,787	$ 14,367				$141,789	$ 1,537,498					$ 2,004,706
SPECIAL REVENUE FUND																						
Budgeted			$ 544,185		$ 547,316								$ 1	$18,390	$319,111		$ 1,977,353	$1,666,000	$13,719,132		$ 614,607	$19,406,095
Actual			519,182		20,033									10,740	294,559		384,305	1,666,000	3,250,322		414,607	6,559,748
Unspent Budget Authority			$ 25,003		$ 527,283								$ 1	$ 7,650	$ 24,552		$ 1,593,048	$ 0	$10,468,810		$ 200,000	$12,846,347 (Note 8)
CAPITAL PROJECTS FUNDS																						
Budgeted			$ 540,685			$ 58,801											$ 636,665		$35,963,571	$17,436,595	$10,261,952	$64,898,269
Actual			540,684			38,130											166,866		8,733,488	5,144,090	4,620,960	19,244,218
Unspent Budget Authority			$ 1			$ 20,671											$ 469,799		$27,230,083	$12,292,505	$ 5,640,992	$45,654,051 (Note 8)
ENTERPRISE FUNDS																						
Budgeted												$19,262,868							$ 50,000			$19,312,868
Actual												17,844,100										17,844,100
Unspent Budget Authority												$ 1,418,768							$ 50,000			$ 1,468,768
INTERNAL SERVICE FUNDS																						
Budgeted	$ 43,366			$3,915,113	$14,876,731	$3,021,332	$3,378,409		$1,104,648	$ 26,666	$761,998	$ 135,092	$12,758,471						$ 51,136			$40,072,962
Actual	43,364			3,721,181	14,374,212	2,966,308	2,493,366		994,320	26,664	746,603	134,758	7,622,843						51,136			33,174,755
Unspent Budget Authority	$ 2			$ 193,932	$ 502,519	$ 55,024	$ 885,043		$ 110,328	$ 2	$ 15,395	$ 334	$ 5,135,628						$ 0			$ 6,898,207

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 37 through 42.

	Director's Office	Accounting Division	Arch & En	Tax Anticipation Notes	Departments & Agencies	University System	Institutions	Total	
PERSONAL SERVICES									
Salaries	$220,037	$261,892	$				$ 17,641	$ 8,094,092	
Hourly Wages								264	
Other Compensation	100							58,155	
Employee Benefits	40,380	54,217							
Total	260,517	316,109					3,776	1,654,272	
OPERATING EXPENSES							21,417	9,806,783	
Contracted Services	2,317	471,155							
Supplies & Materials	3,148	2,747			$ 32,935	$ 8,464	45	3,288,693	
Communications	5,373	12,658					23	521,977	
Travel	1,969				677	174	278	6,300,043	
Rent	7,859	7,915			563	145	5,847	155,474	
Utilities								1,537,310	
Repair & Maintenance	1,565	3,614						908,316	
Other Expenses	803	1,563						915,729	
Goods Purchased For Resale								225,201	
Total	23,034	499,652						4,254,974	
EQUIPMENT AND INTANGIBLE ASSETS					34,175	8,783	6,193	18,107,717	
Equipment	10,961	11,707							
Intangible Assets	620	1,275						1,737,375	
Total	11,581	12,982						66,531	
CAPITAL OUTLAY								1,803,906	
Land & Interest In Land									
Buildings					85,437	32,991		118,428	
Other Improvements					6,832,503	7,192,858	7,364,959	21,509,735	
Total								2,004	
LOCAL ASSISTANCE					6,917,940	7,225,849	7,364,959	21,630,167	
From State Sources									
Total				$ 47,278				47,278	
BENEFITS & CLAIMS				47,278				47,278	
From State Sources									
Insurance Payments								14,869,504	
Total								1,404,795	
TRANSFERS								16,274,299	
Accounting Entity Transfers			5						
Total			5	11,285,219	2,919,477	25,765		15,393,892	
DEBT SERVICE				11,285,219	2,919,477	25,765		15,393,892	
Bonds									
Leases				2,149,779				2,187,817	
Installment Purchases								819	
Lease Participation Notes								382,573	
Total								1,726,635	
				2,149,779				4,297,844	
TOTAL PROGRAM EXPENDITURES	$295,132	$828,743	$1,0	$13,482,276	$ 9,871,592	$ 7,260,397	$ 7,392,569	$87,361,886	
GENERAL FUND									
Budgeted	$253,422	$831,549							
Actual	253,154	828,743		$14,585,009				$18,460,459	
Unspent Budget Authority	$ 268	$ 2,806		12,366,334				16,073,197	
				$ 2,218,675				$ 2,387,262	
SPECIAL REVENUE FUND									
Budgeted			$ 51						
Actual			51	$ 2,031,335	$ 8,635,170		$ 512,600	$12,231,628	
Unspent Budget Authority			$	366,278	1,290,329		97,994	2,597,727	(Note 8)
CAPITAL PROJECTS FUNDS				$ 1,665,057	$ 7,344,841		$ 414,606	$ 9,633,901	
Budgeted			$ 53						
Actual			53	$ 749,665	$36,797,956	$21,683,742	$15,440,059	$75,263,516	
Unspent Budget Authority			$	749,664	8,559,152	7,260,397	7,294,575	24,421,134	(Note 8)
ENTERPRISE FUNDS				$ 1	$28,238,804	$14,423,345	$ 8,145,484	$50,842,382	
Budgeted									
Actual					$ 50,000			$19,299,793	
Unspent Budget Authority								15,465,920	
INTERNAL SERVICE FUNDS					$ 50,000			$ 3,833,873	
Budgeted	$ 42,052								
Actual	41,978				$ 88,300			$38,329,417	
Unspent Budget Authority	$ 74				22,111			28,803,908	
					$ 66,189			$ 9,525,509	

This schedule is prepared from the Statewide Budgeting and

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

	Director's Office	Accounting Division	Architecture & Engineering Division	Publications & Graphics Division	Information Services Division	General Services Division	Property & Supply Bureau	Purchasing Division	Mail & Distribution Division	Centralized Services Division	Investment Division	State Personnel Division	Tort Claims Division	Passenger Tramway Safety	Workers' Compensation Judge	State Tax Appeal Board	Tax Anticipation Notes	Departments & Agencies	University System	Institutions	Total
PERSONAL SERVICES																					
Salaries	$220,037	$261,892	$ 351,379	$ 503,293	$ 3,070,336	$ 818,360	$ 280,932	$339,684	$ 137,535	$310,707	$441,110	$ 812,662	$ 202,812		$193,226	$ 132,486				$ 17,641	$ 8,094,092
Hourly Wages					210	54															264
Other Compensation	100										4,550	25		$ 425		53,055					58,155
Employee Benefits	40,380	54,217	66,900	113,555	603,008	197,788	62,915	69,374	37,417	62,294	80,483	165,366	35,591		34,315	26,893				3,776	1,654,272
Total	260,517	316,109	418,279	616,848	3,673,554	1,016,202	343,847	409,058	174,952	373,001	526,143	978,053	238,403	425	227,541	212,434				21,417	9,806,783
OPERATING EXPENSES																					
Contracted Services	2,317	471,155	17,787	32,582	377,756	747,000	22,769	29,029	4,160	28,787	193,398	533,552	700,347	9,003	19,336	58,271		$ 32,935	$ 8,464	45	3,288,603
Supplies & Materials	3,148	2,747	8,229	3,379	382,468	61,560	7,758	5,744	1,116	3,942	2,522	18,493	7,470		4,493	8,885				23	521,977
Communications	5,375	12,658	15,266	25,852	5,354,119	8,012	13,475	22,418	747,526	9,701	24,008	33,551	7,878	55	10,678	9,144		677	174	278	6,300,043
Travel	1,969		15,582	3,654	56,508	11	1,830	4,098		259	7,662	17,923	9,712	2,254	12,469	14,988		563	145	5,647	155,474
Rent	7,859	7,915	22,423	70,295	857,147	363,257	67,542	15,127	20,743	11,581	37,707	41,097	6,787		1,026	6,804					1,537,310
Utilities					668	899,592	8,056														908,316
Repair & Maintenance	1,565	3,614	2,698	290,904	486,649	78,729	14,338	6,155	4,796	2,969	12,860	4,530	3,446		1,008	1,468					915,729
Other Expenses	803	1,563	4,540	1,748	146,218	14,583	960	1,103	12,897	1,195	5,317	27,552	2,644	48	1,303	2,727					225,201
Goods Purchased for Resale				1,618,415	257,823		2,178,736														4,254,974
Total	23,034	499,652	86,525	2,246,029	7,919,356	2,172,744	2,315,664	83,674	791,238	58,434	283,474	676,696	736,284	11,360	50,313	102,287		34,175	8,783	6,193	18,107,717
EQUIPMENT AND INTANGIBLE ASSETS																					
Equipment	10,961	11,707	25,978	49,899	1,483,885	7,521	64,179	2,082	3,254	7,739	3,576	19,977	8,889		32,112	5,616					1,737,375
Intangible Assets	620	1,275	378	6,670	29,495	1,114	21,290			1,899		1,790			2,000						66,531
Total	11,581	12,982	26,356	56,569	1,513,380	8,635	85,469	2,082	3,254	9,638	3,576	21,767	8,889		34,112	5,616					1,803,906
CAPITAL OUTLAY																					
Land & Interest In Land																		85,437	32,991		118,428
Buildings					119,415													6,832,503	7,192,658	7,364,959	21,509,735
Other Improvements					2,004																2,004
Total					121,419													6,917,940	7,225,849	7,364,959	21,630,167
LOCAL ASSISTANCE																					
From State Sources																	$ 47,278				47,278
Total																	47,278				47,278
BENEFITS & CLAIMS																					
From State Sources												14,869,504									14,869,504
Insurance Payments													1,404,795								1,404,795
Total												14,869,504	1,404,795								16,274,299
TRANSFERS																					
Accounting Entity Transfers			536,737			148,390						30,565	447,739				11,285,219	2,919,477	25,765		15,393,892
Total			536,737			148,390						30,565	447,739				11,285,219	2,919,477	25,765		15,393,892
DEBT SERVICE																					
Bonds					38,038												2,149,779				2,187,817
Leases									819												819
Installment Purchases				375,552							7,021										382,573
Lease Participation Notes					1,726,635																1,726,635
Total				375,552	1,764,673				819		7,021						2,149,779				4,297,844
TOTAL PROGRAM EXPENDITURES	$295,132	$828,743	$1,067,897	$3,294,998	$14,992,382	$3,345,971	$2,744,780	$494,814	$ 970,263	$441,073	$820,214	$16,576,587	$ 2,838,110	$11,785	$311,966	$320,337	$13,482,276	$ 9,671,592	$ 7,260,397	$ 7,392,569	$87,361,886
GENERAL FUND																					
Budgeted	$253,422	$831,549				$ 541,336		$510,231		$440,156	$ 1	$ 953,652		$18,824		$326,279	$14,585,009				$18,460,459
Actual	253,154	828,743				434,683		494,814		413,182	1	950,165		11,785		320,337	12,366,334				16,073,197
Unspent Budget Authority	$ 268	$ 2,806				$ 106,653		$ 15,417		$ 26,974	$ 1	$ 3,487		$ 7,039		$ 5,942	$ 2,218,675				$ 2,387,262
SPECIAL REVENUE FUND																					
Budgeted			$ 536,738										$ 155,000		$360,785		$ 2,031,335	$ 8,635,170		$ 512,600	$12,231,628
Actual			531,160												311,966		366,278	1,290,329		97,994	2,597,727 (Note 8)
Unspent Budget Authority			$ 5,578										$ 155,000		$ 48,819		$ 1,665,057	$ 7,344,841		$ 414,606	$ 9,633,901
CAPITAL PROJECTS FUNDS																					
Budgeted			$ 536,736			$ 55,356											$ 749,665	$36,797,956	$21,683,742	$15,440,059	$75,263,516
Actual			536,737			20,609											749,664	8,559,152	7,260,397	7,294,575	24,421,134 (Note 8)
Unspent Budget Authority			$ 1			$ 34,747											$ 1	$28,238,804	$14,423,345	$ 8,145,484	$50,842,382
ENTERPRISE FUNDS																					
Budgeted												$19,249,793						$ 50,000			$19,299,793
Actual												15,465,920									15,465,920
Unspent Budget Authority												$ 3,783,873						$ 50,000			$ 3,833,873
INTERNAL SERVICE FUNDS																					
Budgeted	$ 42,052			$3,953,555	$15,201,193	$3,031,517	$3,548,628		$1,021,195	$ 27,926	$820,981	$ 161,412	$10,432,658					$ 88,300			$38,329,417
Actual	41,978			3,294,998	14,992,382	2,890,679	2,744,780		970,263	27,891	820,214	160,502	2,838,110					22,111			28,803,908
Unspent Budget Authority	$ 74			$ 658,557	$ 208,811	$ 140,838	$ 803,848		$ 50,932	$ 35	$ 767	$ 910	$ 7,594,548					$ 66,189			$ 9,525,509

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 37 through 42.

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF ADDITIONS AND REDUCTIONS
TO DEFERRED COMPENSATION PROGRAM ASSETS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1987

DEFERRED COMPENSATION ASSETS AT JULY 1, 1985	$25,743,671
ADDITIONS	
Fiscal Year 1985-86:	
Cash Received from Participants	5,577,293
Investments Held for Participants (Net)	7,083,928
Fiscal Year 1986-87:	
Cash Received from Participants	6,129,356
Investments Held for Participants (Net)	7,563,346
Total Additions	26,353,923
REDUCTIONS	
Fiscal Year 1985-86:	
Cash Invested for Participants	5,493,854
Fiscal Year 1986-87:	
Cash Invested for Participants	6,096,568
Total Reductions	11,590,422
DEFERRED COMPENSATION ASSETS AT JUNE 30, 1987	$40,507,172

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 37 through 42.

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF CHANGES IN FUND BALANCE FOR
ARCHITECTURE AND ENGINEERING CONSTRUCTION ADVANCES ACCOUNT*
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1987

FUND BALANCE: JULY 1, 1985	$ -0-
ADDITIONS	
Fiscal Year 1985-86:	
Nonbudgeted Revenue	9,042,730
Fiscal Year 1986-87:	
Nonbudgeted Revenue	5,251,447
Total Additions	14,294,177
REDUCTIONS	
Fiscal Year 1985-86:	
Budgeted Expenditures	9,042,730
Fiscal Year 1986-87:	
Budgeted Expenditures	5,271,298
Prior Year Expenditures	(6,650)
Total Reductions	14,307,378
FUND BALANCE: JUNE 30, 1987	$ (13,201)

* This account is used for construction moneys from other agencies which have the legal authority to spend the money but, due to the size and nature of the projects, transferred the money to Architecture and Engineering Division. This fund does not account for construction moneys appropriated directly to the Long Range Building Program.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 37 through 42.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The department uses the modified accrual basis of accounting which is described in the Montana Operations Manual, except for the proprietary funds which are reported on the full accrual basis of accounting. In applying the modified accrual basis, revenues are recorded when they are received in cash, unless susceptible to accrual. Revenues susceptible to accrual are recorded as receivables when they are measurable and available to pay liabilities of the current period. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures recorded. Intergovernmental revenues received but not earned are recorded as deferred revenues.

Under the modified accrual basis of accounting, expenditures are recognized when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

--If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in the fiscal year subsequent to the fiscal year in which the expenditure is accrued.

--The anticipated cost of equipment is expensed in the fiscal year in which budgeted if a valid purchase order has been issued.

--Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Basis of Presentation

The financial schedules for the Department of Administration (which excludes the Board of Investment's portfolio and the Public Employees' and Teachers' Retirement Divisions) were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The following fund types are used by the department:

General - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue - accounts for the proceeds of specific revenue sources, such as federal oil overcharge funds, that are legally restricted to expenditures for specified purposes. Legislative appropriation authority is required in order to spend from this fund type.

Debt Service - accounts for the accumulation of resources for the payment of general long-term debt principal and interest.

Capital Projects - accounts for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds or trust funds.

Enterprise - accounts for employee group benefit operations that are financed and operated in a manner similar to private business enterprises where the intent of the legislature is that costs are to be financed or recovered primarily through user charges or whenever the legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Internal Service - accounts for the financing of goods or services provided by the department to other departments or agencies of state government or to other governmental entities on a cost-reimbursed basis, such as printing, data processing, telecommunication, cleaning, maintenance, mail distribution, investment, and insurance services and surplus property.

Agency - accounts for assets held by the department as an agent for individuals, private organizations, other governments, or other funds, such as deferred compensation contributions and investments and construction advances. A legislative appropriation is not required to spend from these funds.

2. GENERAL FUND BALANCE

The General Fund is a Statewide Fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the Statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule, the beginning and ending fund balance will always be zero for the General Fund.

3. DEBT ISSUANCES

The department's long-term debt at June 30, 1987 consisted of the following:

General Obligation Bonds	$ 93,935,000
Telecommunications Lease Purchase Certificate	7,885,000
SRS Lease Purchase Agreement	1,121,625
Total	$102,941,625

The department issued $42,000,000 of Tax and Revenue Anticipation Notes (TRANS) in July 1987 and $14,000,000 of TRANS in November 1987. The department plans to issue new Certificates of Participation in April 1988, for $6,280,000 to pay off present Certificates of Participation on the call dates of July 1, 1988. Since June 30, 1987, the Board of Examiners has issued $26,565,000 in Coal Severance Tax Bonds.

4. SELF-INSURANCE FUNDS

The department maintains several self-insurance plans. A brief description of each plan and the method of recording transactions are discussed below.

Group Employee Comprehensive Medical and Dental Plan - This plan is fully self-insured, with the State assuming all the risk for claims incurred by employees of the State, elected officials, retirees and their dependents, except for organ transplants which have been reinsured with Equitable Life Assurance Society of the United States of America. There is no third party coverage. Blue Cross and Blue Shield of Montana administers the plan under contract.

Premiums are collected through payroll deductions, deductions through the Public Employees' Retirement System and self-payment and are recorded as revenue in the Employees' Group Benefits Enterprise Fund. In July 1987, incurred, but not reported, claims were estimated by Marvin E. Segal Company, a consulting actuarial firm, to be $3,340,900; a liability has been recorded in the department's records for these estimated claims.

Property Insurance Plans - This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, retail liquor stores inventory and inland marine. The State self-insures the $100,000 deductible per occurrence for property insurance. The third party pays the next $50 million per occurrence. Premiums are collected from all State agencies including higher education units and recorded as revenue in the Administration Insurance Internal Service Fund. The most recent actuarial report, prepared by Coopers & Lybrand and issued for

the accident period 7/1/77-6/30/86, estimated that the present fund balance reserve is insufficient by $38 million.

5. CONTINGENCIES

The state is a defendant in numerous lawsuits involving tort claims which are either covered under the state's self-insurance plan or by private insurance. It is the opinion of the Attorney General and the Department of Administration counsel that the level of coverage and reserves are adequate and that such pending litigation will not be finally determined so as to result individually or in the aggregate in a final judgment against the state which would materially affect its financial position. Any noncovered judgments are referred to the Legislature for consideration in establishing the next biennial budget. Department personnel stated that as of March 29, 1988, there are 232 cases still pending and indicated they had reserved approximately $8.8 million for the state's contingent liability. The department had about $7.8 million of assets available to pay these claims at March 31, 1988.

6. FIXED ASSETS

The department is responsible for recording land, buildings and construction work in progress for all state agencies except as noted below:

Higher Education Units	Department of Highways
Full Accrual Funds	Workers' Compensation Division
Expendable Trust Funds	Department of Fish, Wildlife and Parks
Institutions	Unemployment Insurance Division
Department of State Lands	School for the Deaf and Blind
Department of Military Affairs	Fire Service Training School

The department also does not record property owned by Helena-based agencies, but located outside of Helena. The department's fixed asset balances at July 1, 1985 and June 30, 1987 and the net changes in these balances are shown below:

Schedule of Changes in Fixed Assets

	Balance at 07/01/85	Net Changes In Balances	Balance at 6/30/87
Enterprise Fund			
Equipment	$ 7,687	$ 5,178	$ 12,865
Less Accumulated Depreciation	(321)	(2,413)	(2,734)
Net Fixed Assets	$ 7,366	$ 2,765	$ 10,131
Internal Service Fund			
Equipment	$17,311,816	$ 908,239	$18,220,055
Less Accumulated Depreciation	(6,393,156)	(2,349,083)	(8,742,239)
Net Fixed Assets	$10,918,660	$(1,440,844)	$ 9,477,816
General Fixed Assets Account Group			
Buildings and Other Improvements	$27,175,787	$5,306,110*	$32,481,897
Land	2,448,218	79,051*	2,527,269
Construction In Progress	2,188,114	(182,712)	2,005,402
Equipment	543,008	(35,302)	507,706
Museum	74,000	-0-	74,000
Total	$32,429,127	$5,167,147*	$37,596,274

* $3,190,964 of this change occurred due to a change during the biennium in the state accounting policy establishing responsibility for recording fixed assets. As a result of this change, $7,221,312 of land and buildings previously recorded by other agencies were added to and $4,030,348 of land and buildings previously recorded by the department were deleted from the department's records.

7. PROPERTY HELD IN TRUST

Contractors with the State of Montana must deposit performance bonds with the State Treasurer, in accordance with sections 18-1-301 to 303, MCA. At June 30, 1987, the State Treasurer held $590,892 of these contractor deposits.

8. BUDGETS FOR CAPITAL PROJECTS

Estimated Federal Revenue in the Capital Projects Fund, as shown on the Schedules of Budgeted Revenue and Transfers In - Estimated and Actual on pages 31 and 32, is the amount of revenue the department expected to collect from sources outside the Long Range Building Program for building capital projects. This estimate is based on amounts appropriated from outside the Long Range Building Program for capital projects.

Budgeted Expenditures in the Departments and Agencies, University System, and Institutions Programs (i.e., Long Range Building Program) of the Special Revenue and Capital Projects Funds, as shown on the Schedules of Budgeted Program Expenditures and Transfers Out by Object and Fund on pages 33 and 34, is the amount appropriated through legislative and administrative processes for building capital projects.

Capital projects are generally built over an extended period of time and are not completed the same year the related appropriation is established. Also, appropriated projects may never be built because the anticipated funding sources (e.g. federal government) do not become available. As a result, estimated revenues and budgeted expenditures related to capital projects may exceed actual revenues and expenditures by a significant amount.

AGENCY RESPONSE

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE

TED SCHWINDEN, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

(406) 444-2032

HELENA, MONTANA 59620

RECEIVED
MAY 31 1988
MONTANA LEGISLATIVE
AUDITOR

May 31, 1988

Scott Seacat
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Dear Scott:

We have reviewed the recommendations pertaining to the Financial Compliance Audit. Our responses follow:

Recommendation #1

We recommend the Department:

A. Comply with State cash collection and deposit laws and policies.

B. Implement adequate cash collection and deposit control procedures at the Property and Supply Bureau and the State Personnel Division.

Response

A. We concur. This recommendation has been implemented.

B. We concur. The Property and Supply Bureau implemented improved internal control procedures for cash collection and deposit effective February 9, 1988. The State Personnel Division has also implemented the revisions for cash collection procedures recommended by the auditors.

Recommendation #2

We recommend the Department develop procedures to facilitate timely closeout of unexpended appropriation balances for capital projects.

AN EQUAL OPPORTUNITY EMPLOYER

Response

We concur. We have made significant improvements in this area. During the time of the legislative audit, the accounting records for State construction projects were kept by hand. In March 1988, the Architecture & Engineering Division implemented an automated project accounting system as a means to reduce the time and effort necessary to manage the finances and accountability of the LRBP. The system allows easy review of the status of all appropriations at any time. The availability of this information will allow the division to track projects more closely and thus facilitate a timely project closeout.

We have included the schedule below to show the current status of active LRBP appropriations identified in the audit report as of August 1987. Of the 284 appropriations listed at that time, the division has closed out 77, and the appropriations will revert on June 30, 1988. Taking this action into consideration, the schedule lists the remaining active appropriations for FY 77 through FY 88.

Fiscal Year	Number of Appropriations (August 1987)	Number of Appropriations (June 1988)
1977-78	1	1
1978-79	1	1
1979-80	9	1
1980-81	11	2
1981-82	5	3
1982-83	51	26
1983-84	8	2
1984-85	84	73
1985-86	25	14
1986-87	87	84
1987-88	2	0
Total	284	207

For comparison purposes, the schedule does not include any appropriations set up after August 1987.

The reduction in the number of appropriations from 284 on August 31, 1987, to 207 in May 1988, is a good indication that the system works. This has been done in spite of the fact that some appropriations involve numerous projects. For example, the $750,000 Miscellaneous Maintenance appropriation that has been authorized for the Department of Highways for several bienniums normally involves approximately 30 individual projects. In this

case, a single appropriation is deceiving because of the amount of work necessary to complete all the projects. On the other hand, some projects are difficult to close out because they contain multiple appropriations. An example of this is the Giant Springs State Park Improvement Project. It contained five appropriations with three different funding sources authorized in two separate fiscal years. If any single appropriation has activity, the entire project remains open, and when private donations are involved, as in the case of Giant Springs, it can delay the project closeout.

The audit report listed a total unexpended appropriation balance of $57,095,000 as of August 31, 1987. At first glance, it appears that a huge amount of Capital Projects Fund authority is sitting idle. In reality, this is not the case. As of May 1988, this total balance had been reduced by almost $27 million to $30,242,286. Of this amount, only $8.7 million was from the Capital Projects Fund. The remaining balance consisted of various State and Federal special revenue funds and private funds. This situation may involve projects in almost any agency, but we will describe a few. The Department of Military Affairs had two appropriations set up in 1985 for an Organizational Maintenance Shop in Missoula. $675,000 was authorized in Federal funds and $25,200 in the Capital Projects Fund. The project cannot be started because the Federal funds are not available at this time. However, the audit report simply shows an unexpended appropriation balance of $700,200. Another example involves the University System, specifically, Montana State University. In 1983, MSU was authorized $300,000 in "other appropriated funds" to remodel Herrick Hall. Their hopes were to find grants or private donations to fund this project. They have not materialized. However, the audit report shows this as a $300,000 unexpended balance.

Recent Long Range Building Programs have substantiated the fact that most of the funding that is unexpended is from sources other than the Capital Projects Fund. In other words, the vast majority of the unexpended balance involves agencies' funds, such as fuel tax monies or license fees. These funds could not be utilized for construction projects in any other agency. A summary of the last two LRBPs follows:

Long Range Building Program
1985 Biennium & 1987 Biennium
(Millions)

Biennium	Capital Projects Fund	Other Cash Projects	LRBP Bonds	Other Bonds	Total Program
1985-87	$10.52	$20.12	$0.00	$8.55	$39.19
1987-89	$ 6.24	$11.44	$0.00	$0.00	$17.68

Recommendation #3

We recommend the Department:

A. Establish State accounting policies that are consistent with State laws.

B. Provide State agencies with the information necessary to record financial activity in accordance with State law.

Response

We concur with the recommendation, but we maintain we were and are currently in compliance.

Contributed Capital - State accounting policy does require contributed capital to be recorded as such on the State's accounting records. MOM 2-0210 requires all State agencies to record all financial activity in accordance with GAAP and says in the absence of a State policy, agencies are to refer to pronouncements of the Governmental Accounting Standards Board, Financial Accounting Standards Board, etc. State accounting policy does not attempt to repeat every accounting pronouncement ever issued by a standard setting board.

A control account is provided in SBAS, and the Montana Operations Manual (MOM) defines contributed capital as "the amount of permanent fund equity contributed to a proprietary fund...by (1) other accounting entities..., (2) other governments, or (3) private sources. [Contributed capital] is used instead of 'Fund Balance...,' which reflects capital obtained through cumulated earnings."

Intra-fund Eliminations - We do not agree with the auditor's conclusion that State accounting policy does not result in financial records at each State agency that are in accordance with GAAP. GAAP requires that intra-fund activity be eliminated in a government's financial statements, not in its accounting records.

State agencies record their activity in SBAS in "Accounting Entities." Amounts due to or from one accounting entity to another are not **intra-fund** until the two accounting entities are "rolled together" into one fund for financial reporting purposes. Accounting entities are never "rolled together" in the State's accounting system, SBAS. If inter-entity activity were eliminated in SBAS, we would lose accountability in the State's

permanent financial records for activity such as inter-entity loans outstanding at year end.

Interdepartmental Eliminations - Management Memo 2-88-7 issued April 29, 1988, says "Higher Education units' interdepartmental eliminations must be booked in SBAS."

Recommendation #4

We recommend the Department implement procedures to ensure its financial activity is recorded on the State's accounting records in accordance with State law and State accounting policies.

Response

We concur. The primary way we have dealt with these issues is by increasing the qualifications of the staff positions responsible for the accounting transactions involved in most of the situations described in the report.

Recommendation #5

We recommend the Department:

A. Fully reconcile deferred compensation program participant contributions to investment reports.

B. Write rules for the administration of the State's deferred compensation plan through the State's established rule-making process, as required by State law.

Response

A. We concur that the reconciliation needs improvement. However, reconciliation to the current investment report as suggested does not appear possible. The differences noted in the audit report are timing differences between payroll deposits sent by the State and the enrollment/change forms sent by the third party administrator.

These timing differences necessitate either a modification of the investment report or an intermediary report to permit reconciliation. The Department, insurance carrier and third party administrator will implement an acceptable

reconciliation procedure for payroll deposits. The proposed implementation date is July 1, 1989.

B. We concur. Administrative rules will be established by July 1, 1989.

Recommendation #6

We recommend the Department comply with 2-17-105, MCA, and use insurance proceeds in accordance with State law.

Response

We concur. The Department contends that the questioned disbursements comply with 2-17-105, MCA. Insurance proceeds were used to replace the damaged property as specified in 2-17-105 (2)(b). "Like for like" replacement is not specified or required by the statute. Such an interpretation would lead to poor management decisions when obsolete equipment is destroyed.

Recommendation #7

We recommend the Department provide appropriate supervision to personnel responsible for issuing purchase orders to ensure the purchase orders comply with applicable State laws and policies.

Response

We concur. The Department will provide proper supervision.

Recommendation #8

We recommend the Department seek legislation clarifying the disposition of unused bond proceeds.

Response

We concur. Legislators who approved the bond programs involved had the understanding that these two bonded projects (airport loan program and Western Montana College) would be self-supporting and would not negatively impact the general fund. The Department's action of putting unspent bond proceeds for the airport loan program in the debt service account to retire the remaining debt accomplished this objective. If the remaining proceeds reverted to the Capital Projects Fund, thus becoming available for reappropriation, the programs would not be self-supporting and would go against legislative intent.

If similar situations of this nature occur in the future, the Department will seek language directing that unused bond proceeds revert to the debt service fund to retire the debt.

Recommendation #9

We recommend the Department write a telecommunications disaster recovery plan and provide adequate physical security over telecommunications equipment.

Response

We concur. The Department has contracted with a security consultant for the purposes of creating a disaster recovery plan and for defining other security issues. The consultant's activities are scheduled for completion by July 31, 1988. A disaster recovery plan will be documented by October 31, 1988, and plans to improve physical security will be defined and acted upon within the same timeframe.

Recommendation #10

We recommend the Department comply with State law and policy by:

A. Ensuring adequate and consistent handling of its contracts.

B. Maintaining documentation certifying workers' compensation insurance coverage or an approved exemption for contractors.

C. Documenting each sole source private professional service contract justification or competitively bidding the contract.

Response

We concur. No workers' compensation claims have been submitted against the Department for the persons identified in the audit. The issue in the audit was one of paper in the file--not actual coverage. The audit found that the workers' compensation certificates were missing from the files. This does not necessarily mean that workers' compensation coverage was missing.

The Department plans to redefine some SBAS objects of expenditure and delete duplicate objects of expenditure effective July 1, 1989. These changes will result in more consistent coding of contracted services expenditures.

Subsequent to the issuance of the audit report on State Agency Use of Contracted Services, the Governor rescinded Management Memos 4-81-4R and 4-83-1R. The Department issued Management Memo I-88-4-6 effective May 1, 1988. This Management Memo, adopted after broad agency review, will result in increased agency compliance with laws regarding the concerns expressed in the audit report.

The Professional Development Center, Department of Administration, has developed and is offering a course regarding State laws relating to contractor selection, the employer/employee relationship, and independent contractor status. The course should provide all State agencies more knowledge in this area of State law.

Recommendation #11

We recommend the Department comply with State law by:

A. Establishing records retention schedules for all its unique documents.

B. Updating records retention schedules on a regular and timely basis.

C. Retaining records in accordance with established records retention schedules.

Response

We concur. Records retention schedules were established by April 1, 1988.

The schedules will be updated every two years.

Recommendation #12

We recommend the Department:

A. Work with the Departments of Revenue and State Lands and, if necessary, seek changes in State law to ensure timely State land equalization payments are made to counties.

B. Seek repeal of laws relating to the Merit System that were determined unconstitutional by the District Court.

C. Seek modification of printing laws to allow the Department to retain samples of printed materials in accordance with State records retention policies.

Response

A. No change in statute is necessary for this Department to perform its responsibilities related to the equalization payment, that is, processing of the Department of State Land's claim. We will process the claim by December 1, provided it is received prior to that date.

If someone proposes legislative change regarding the date mentioned, we will not oppose the change. It would seem more appropriate that this matter be proposed in audit reports of one of the other agencies mentioned, since this Department's responsibility consists only of processing one of thousands of claims received each year.

B. The Department concurs that laws relating to the Merit System are no longer needed. The Department would support legislation proposed by the Legislative Audit Committee to repeal them. The Department believes that the Office of the Legislative Auditor is the appropriate agency to carry such legislation.

C. The Department will support, but not initiate, legislation allowing, but not requiring, the Department to retain sample copies of printed materials in accordance with State records retention policies.

We appreciate the opportunity we have had to interact with your staff on these issues.

Sincerely,

Ellen Feaver

ELLEN FEAVER
Director